

**FOREIGN
BROADCAST
INFORMATION
SERVICE**

JPRS Report

China

China

JPRS-CAR-89-101

CONTENTS

5 OCTOBER 1989

INTERNATIONAL

UNITED STATES

Bush Administration Seen Responding To New Patterns in Asia [GUOJI ZHANWANG No 11] 1

POLITICAL

Proposal To Relax 'Residence Card' System [ZHONGGUO QINGNIAN No 6] 5
Wu Jiaxiang Advocates Neo-Authoritarianism [ZHONGGUO QINGNIAN, No 6] 8
 Personal History 8
 Position on Neo-Authoritarianism 9
Evolution of Political Thought Leading to Socialism in 1919 [RENMIN RIBAO 21 Aug] 10

ECONOMIC

NATIONAL AFFAIRS, POLICY

Macroeconomic Changes Examined [JINGJI YANJIU No 6] 15
Enterprise Shareholding System Examined [JINGJI YANJIU No 6] 20
Possible 'Modification' of Contract Management System 25
 Feasibility of Dividing Taxes, Profits [JINGJI RIBAO 21 Aug] 25
 Reform of Income Distribution Between State Enterprises
 [ZHONGGUO JINGJI TIZHI GAIGE No 6] 27
 'Gradually Eliminate' Contract System [CHING-CHI TAO-PAO 14 Aug] 30
July Economic Indexes Released [CEI Database] 31

PROVINCIAL

Report on Housing Reform in Guangzhou [ZHONGGUO XINWEN SHE] 32
Jiangxi Price Reform [Nanchang YUEKAN No 6] 33

FINANCE, BANKING [JINGJI CANKAO 14 Aug]

China's Financial Deficits—Causes, Solutions 36

INDUSTRY

Airplane Production Reaches 13,000 [XINHUA] 39
Article Reports on Henan's Industry, Reform [HENAN RIBAO 12 Aug] 39
Jilin Reports 40 Years' Industrial Development [Changchun Radio] 42
Industrial Belt Taking Shape in Yangtze River Delta [XINHUA] 43
Tangshan Becomes Major Industrial Center [XINHUA] 44

CONSTRUCTION

Per Capita Living Space 'Increases' [XINHUA] 44
Shanghai Announces 'Tough' New Building Controls
 [Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST)] 44

FOREIGN TRADE, INVESTMENT

Problems in Sino-Foreign Joint Ventures [Hong Kong CHING CHI TAO PAO No 25] 45
Foreign Investments 'Increase' in Xiamen City [XINHUA] 46

POPULATION

| | | |
|---|----------|----|
| Family Planning Helps Cut Population Growth | [XINHUA] | 47 |
|---|----------|----|

TRANSPORTATION

| | | |
|---|----------------|----|
| Heilongjiang Highway Construction Development | [Harbin Radio] | 47 |
| Heilongjiang Improves Highway System | [XINHUA] | 47 |
| Provincial Highway Construction Progress Reviewed | [Jinan Radio] | 47 |

PRC MEDIA ON FOREIGN ECONOMIES

| | | |
|--|-----------------------------|----|
| Lessons From USSR, East Europe on Price Reform | [SICHUAN DAXUE XUEBAO No 2] | 48 |
|--|-----------------------------|----|

AGRICULTURE

| | | |
|---|---|----|
| Buying Selling of Edible Oil | [DANGDAI ZHONGGUO DE LIANGSHI GONGZUO 1 Feb 88] | 55 |
| Issue in Procurement of Agricultural Byproducts | [JINGJI RIBAO 31 Aug] | 76 |
| Anhui Rice Storage | [ANHUI RIBAO 1 Sep] | 79 |
| Provinces Issue IOU's to Hog Farmers | [NONGMIN RIBAO 4 Sep] | 79 |
| Sichuan Wheat, Rapeseed Procurement | [SICHUAN RIBAO 3 Sep] | 79 |
| Sichuan Peasant Income | [SICHUAN RIBAO 31 Aug] | 79 |
| Yunnan Livestock Production | [YUNNAN RIBAO 22 Aug] | 79 |

SOCIAL

| | | |
|--|------------------|----|
| Veteran Journalist Discusses Role of Media | [Shanghai Radio] | 80 |
|--|------------------|----|

REGIONAL

EAST REGION

| | | |
|---|------------------------|----|
| Jiangxi Conference Backs Anticorruption Circular | [JIANGXI RIBAO 29 Aug] | 82 |
| Inspection Organs Work To Promote Clean Government in Jiangxi | [Nanchang Radio] | 82 |
| Anhui Implements Circular on Crime Informing, Confession | [Hefei Radio] | 83 |
| Shandong Official Emphasizes Party Building | [Jinan Radio] | 84 |

CENTRAL-SOUTH REGION

| | | |
|--|------------------------------|----|
| Guangdong Governor Attributes Progress to Reform, Opening Up | [ZHONGGUO XINWEN SHE 16 Sep] | 85 |
|--|------------------------------|----|

NORTHEAST REGION

| | | |
|---|-------------------|----|
| Harbin Ideological, Political Conference Opens | [Harbin Radio] | 86 |
| Heilongjiang Symposium Affirms Party Guidelines | [Harbin Radio] | 86 |
| Jilin Conference Discusses Public Security Work, Future Tasks | [Changchun Radio] | 87 |
| Jilin Reports Educational Achievements | [Changchun Radio] | 87 |
| Liaoning Conference Deals With Cultural Markets | [Shenyang Radio] | 87 |

UNITED STATES

Bush Administration Seen Responding To New Patterns in Asia

40050646 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 11, 8 Jun 89 pp 15-17

[Article by Ding Xinghao 0002 1630 6275: "The Bush Administration's Response To Emerging Patterns in Asia"]

[Text] It is certainly not surprising that the Bush administration put its Asia policy first on the agenda when considering and revising U.S. foreign policy, because unprecedented economic and political changes are taking place in East Asia and the Pacific region. Moreover, all the countries throughout the world, and those in Asia in particular, are paying close attention to how the United States will reappraise its position and what role it is prepared to play in the Asian-Pacific region, and to what policy response the new Bush administration will take to confront the situation that will be consistent with past and future U.S. policy.

Emerging Patterns in the Asian-Pacific Region

On one hand, Japan and its "four little dragons" in Asia (South Korea, Singapore, Hong Kong, and Taiwan) have taken advantage of the flourishing world market since the 1960's to quickly develop their economies with an export-oriented strategy focused mainly on the U.S. market. On the other hand, the standing of the U.S. economy in foreign trade has deteriorated steadily in the 1980's. Factors such as the savings rates and fiscal deficits have caused a constant increase in the U.S. trade deficit. The U.S. foreign trade deficit was \$39.7 billion in 1981, after which it shot up sharply, to a high of \$173.7 billion by 1987. The U.S. trade deficit with the major countries and regions in the Asian-Pacific region was \$19.6 billion in 1980, but reached a high of \$105.9 billion, or 60 percent of its entire foreign trade deficit, by 1987. This huge trade deficit caused deficits to appear in U.S. day-to-day operations, worsened its international balance-of-payments standing, and reduced the world's biggest creditor nation into the biggest debtor nation. The United States must reduce its foreign trade and international balance of payments deficits to improve its economic situation. Thus, it is working hard to become more competitive to increase exports and is taking protectionist steps to decrease imports in an attempt to achieve a balance of trade. But Japan, its "four little dragons," and the ASEAN nations are still placing their hopes on the U.S. market. Consequently, trade friction between the United States and Japan has sharpened and there may be rivalry for overall economic control of the Asian-Pacific region. Along with the trade friction between the United States and Japan, the various countries and regions in the Asian-Pacific region are also competing for other things, such as markets and foreign investment.

If it is said that the world is evolving from a bipolar to a multipolar one, then this process is taking place first in Asia. Four of the world's so-called five poles are in the Asian-Pacific region, and Northeast Asia is where the power and interests of the four great nations of the United States, the Soviet Union, Japan, and China will either converge or diverge. It now looks as if all sides hope that a new balance of power can be maintained in Asia.

Although the world is still under the bipolar military control of the United States and the Soviet Union, which are the only two countries that can be called superpowers from the perspective of military strength, the United States has already lost its economic supremacy over the world, and its economic standing is being challenged even in Asia. The Soviet Union has focused its efforts on settling domestic economic issues and constantly taken a corresponding initiative in foreign affairs since Gorbachev came to power, and its threat to Asia seems to have decreased somewhat. Thus, the bipolar era that came into being after the end of World War II and was focused mainly on striving for military superiority, has ended.

1. Bilateral relations between the United States and the Soviet Union have generally improved and the tension between them has been generally alleviated since they signed the intermediate-range missile treaty. They learned lessons from Vietnam and Afghanistan and have a common desire to preserve the balance of power in Asia.

2. Japan has been striving to play a new and bigger economic and political role on the international stage since its economic status has improved.

3. The normalization of Sino-Soviet relations has had a big impact on the overall situation in the Asian-Pacific region. It not only means that U.S.-China relations no longer rely solely on joint efforts to counter the Soviet Union, but has also given China more foreign affairs options.

In addition, since the other countries in the Asian-Pacific region and the ASEAN nations have won more political leeway and have more political say because of their increased economic strength, their existence and impact cannot be ignored.

In summary, new patterns have emerged or are brewing in the interrelationships among the various countries in the Asian-Pacific region. President Bush's Asia policy must adapt to these patterns and be based on emerging facts.

The United States Is Reaffirming Its Special Role in the Asian-Pacific Region

Although it is still hard for China to fully appraise the Bush administration's foreign policy because President Bush has not yet completed his appraisal of Reagan's foreign policy, we can roughly predict the new U.S.

administration's basic Asian-Pacific policy from the foreign policy statements of President Bush and his advisers and the policy proposals of his brain trust.

President Bush not only reaffirmed his predecessor Reagan's statement that "The United States is a Pacific nation" on his visit to Asia in February 1989, but also emphasized that "his trip to Asia would show the U.S. determination to remain a Pacific nation." The United States is facing many challenges in the Asian-Pacific region. Its loss of its all-powerful postwar status as a superpower can be seen first in its possible loss of economic supremacy to Japan. But hardly any of its official policymakers or nongovernmental brain trusts have suggested that the Bush administration should withdraw from Asia. On the contrary, they have called for "further clarification of the special U.S. role in Asia." This is due to Asia's increasingly important and close economic and strategic ties to the United States. The United States had trade turnovers of \$241 billion with Asia and \$170 billion with Europe in 1987. Moreover, while U.S.-European trade surpassed U.S.-Asian trade as little as a decade ago, it is predicted that U.S.-Asian trade will be twice that of U.S.-European trade by the end of the 20th century. Since Asia also has strategic differences with Europe, with neither a military standoff between two great military blocs or a long antagonism between two economic organizations, it still has room to maneuver. The Bush administration must react to Gorbachev's foreign affairs offensive in Asia or the United States will lose its foreign affairs dominance there. Brzezinski said that "Since the Pacific has always been a U.S. window on the world and a U.S. priority in taking part in world affairs, it seems that it should now play an equal role with the United States."

It is worth noting that even though the United States has been under attack for some time as "being on the decline," at least some of its people seem to have begun to regain faith in their country. They think that even though it is a fact that the U.S. GNP that accounted for about 50 percent of the world GNP in the initial postwar period in the 1950's now accounts for only 25 percent, this certainly does not imply that the United States is on the decline, because its GNP had dropped to 25 percent of the world GNP as early as the 1960's, along with the complete recovery of the postwar world economy, and statistics show that it has maintained this exact level for more than 2 decades. This self-confidence can also be seen from a comparison of the current potentials of several great nations. Although Gorbachev's succession of foreign affairs offensives have kept the United States very busy, it can see that reform in the Soviet Union is experiencing many difficulties and has an unpredictable future. China is having difficulty moving ahead because it is carrying the burden of a population of a billion people and, although Japan has worked repeated economic wonders, it has no reserve strength. Since the United States is the only great nation that has relatively

diversified forces and is "the contestant in this competition with the best and most complete natural conditions," its leadership will be needed more than ever in the coming decades.

Within this general setting, if the new Bush administration is going to get the United States more actively involved in the Asian-Pacific region, its specific policies will have to adapt to the region's diversified and complex characteristics and focus on dealing with the relations between the four poles of the United States, the Soviet Union, China, and Japan. Its specific methods will be to rejuvenate the U.S. economy, become more competitive, consult and cooperate more with its allies such as Japan, keep trade friction from escalating into a political issue, actively develop bilateral relations with all countries in the Asian-Pacific region, increase U.S. influence, slow the improvement in U.S.-Soviet relations while actively developing and stabilizing U.S.-China relations, and play a leading role in planning new economic and security systems in the Asian-Pacific region.

Japan Is Both U.S. Ally and Opponent

Although it was emphasized in the Reagan era that Japan was the "cornerstone" of U.S. Asia policy, the Bush administration will have to revise Reagan's Japan policy because of the changed balance of economic strength and the worsened trade friction between the United States and Japan and the lessened Soviet military threat in Northeast Asia. Japan will be both a U.S. political ally and an economic opponent in the approaching 1990's.

Japan's exports to the United States topped \$80 billion, or 38.5 percent of its total, while its exports to the EC were only \$30 billion, or 14.7 percent of its total, in 1986. Although Japan's economic interests still rely to quite an extent on the U.S. market because of a short-term difficulty in replacing it with other markets, the problem is the long-term imbalance in U.S.-Japanese trade and the consecutive yearly increases in the U.S. trade deficit with Japan, which was only \$6.8 billion in 1976, reached a high of \$58.6 billion in 1986, dropped slightly in 1988, but is still \$47.6 billion.

The United States is determined to improve its foreign trade standing, while Japan still regards the United States as its major export market. Thus, the trade friction between the United States and Japan will only worsen, with no signs of improvement in the immediate future. Although the 1988 Comprehensive Trade Law was caused by both the constant worsening of the U.S. foreign trade standing and the sharpening of U.S. trade friction with Japan and Western Europe, it was directed mainly at Japan. The United States thinks that if Japan's attitude does not change, the trade friction between them may very possibly escalate into political conflict and "have a further impact on the U.S. promise of free trade, even to the point of undermining the strategic relations between them."

A sharply worded document called "An Attack of Japanese Aggression Against the U.S. Economy" has been

circulating recently among U.S. congressmen. It points out that the United States is "facing two battles in the world, that is, a military struggle with the Soviet Union and an economic and technological struggle with Japan," and emphasizes that since the struggle with Japan is more important than that with the Soviet Union, the United States must not treat it lightly.

Since its economic strength is growing day by day, Japan is certainly going to be playing some sort of new role in the Asian-Pacific region whether the United States likes it or not. Thus, certain Asian-Pacific countries, as well as the United States, are on guard against Japan. The U.S. media has emphasized that, although Japan's standing has improved, it is only an important commercial and economic force at best. It thinks that although Japan has a rich economy, it is still "poor" in other areas and, in short, "lacks the quality of a world leader."

As to military affairs, Japan's 1989 defense budget was \$1 billion, or 1.006 percent of its GNP. At this rate, Japan's military expenditures will climb to third place in the world, second only to those of the United States and the Soviet Union. That Japan's military budget has accounted for more than 1 percent of its GNP for 3 consecutive years is a result of pressure from the Reagan administration, which intended to make Japan increase its military expenditures in order to both lighten the U.S. burden and weaken Japan's economic competitiveness.

In summary, the basic aim of the Bush administration's Japan policy is to preserve U.S. leadership while making Japan share some responsibility. Specifically, it will force Japan to make bilateral trade concessions to help the United States cut its trade deficit, require Japan to make more economic contributions and use its forces more "constructively" while keeping its aid and investment from having an impact on U.S. strategy, allow Japan to play a bigger political role without superceding the United States, and increase Japan's defense capability and make it share security costs with the United States while preserving absolute U.S. military leadership. But, since Japan has already become a great nation economically and is striving for great nation status politically, it certainly cannot be absolutely controlled by the United States. Although the United States wants Japan to share the burden, Japan wants to enjoy its power and is trying to defeat the aim of U.S. policy, which makes it hard for them to reach a common understanding. Whether U.S. intentions can be realized depends on Japan's attitude.

The Normalization of Sino-Soviet Relations and "Emerging Tripartite Relations"

Bush is the first incumbent U.S. president to visit the Pacific region before the Atlantic region. This shows not only the Bush administration's emphasis on the Asian-Pacific region, but also that the "great nation tripartite strategy" is still playing a role. The normalization of Sino-Soviet relations is one of the major factors that spurred President Bush to plan his itinerary in this order.

Since U.S.-Soviet relations were strained and Sino-Soviet relations were still antagonistic when the Reagan administration reviewed the U.S.-Asia policy in 1983, the United States adopted a basic policy of relying on Japan and using China to counter the Soviet Union. The normalization of Sino-Soviet and great nation tripartite relations made it harder for any side to compete against the other two. Although the Bush administration knows that it will be hard for the United States to continue to reap third-party profits as before, it still does not want to let the Soviet Union occupy the best standing in tripartite relations. Although President Bush wants to carry forward Reagan's policy and continue to develop good relations with the Soviet Union, while naturally having no reason to make irresponsible remarks about China's improvement of relations with the Soviet Union, he obviously does not want Sino-Soviet relations to be better than U.S.-China relations.

Even though both China and the Soviet Union have expressed the need to build a "new relationship" and not become allies as in the 1950's, the United States is certainly still anxious about this and has been paying very close attention to the extent of cooperation between them since Sino-Soviet relations were normalized. Certain U.S. brain trusts have emphasized that any military cooperation in Sino-Soviet relations would be regarded as a real alignment and would "make the United States reappraise its relations with both China and the Soviet Union." The major goal of President Bush's decision to rush to visit Beijing before Gorbachev, just 34 days after taking office, was to check the warming of Sino-Soviet relations.

It should be noted that there is a difference in the U.S. approach and policy toward the Soviet Union and China, who are certainly not equal in the great nation tripartite relationship. This is because, even though U.S.-Soviet relations have improved somewhat, the United States still sees the Soviet Union as its major opponent and a more real threat than China. Thus, the Bush administration refused to accept Gorbachev's proposal made at Krasnoyarsk in September 1988, refused to hold talks with the Soviet Union on issues such as reducing the risk of military confrontation between the United States and the Soviet Union in the Asian-Pacific region, and even more strongly refused to accept the removal of the Soviet presence in Cam Ranh Bay, Vietnam as a condition for withdrawing the U.S. Army from its military bases in the Philippines. The Bush administration will still continue to carry out a strategy of forward deployment, and will not withdraw U.S. ground troops from South Korea in the immediate future. Instead, the United States is going to further strengthen its military cooperation with South Korea in order to preserve a military balance with the Soviet Union in Northeast Asia.

The Bush administration may develop U.S.-China relations more actively than the Reagan administration did. Its basic policies are to emphasize the importance of economic, political, and cultural ties between the United

States and China, reaffirm its support for China's reforms, give more positive encouragement to the U.S. business community to cooperate with China than the Japanese Government gives to its businessmen, and relax its restrictions on exports of high-tech equipment and important materials to China.

President Bush and his foreign affairs advisers are studying the issue from a more geopolitical perspective. They think that maintaining good U.S.-China relations

not only can contain the Soviet Union and enable the United States to maintain the status quo in its contention with the Soviet Union, but also can keep Japanese militarism from resurfacing. It looks as if the Bush administration is changing the Reagan era policy of overreliance on Japan, taking "Japan's economic strength" and "the strategic relationship of U.S.-Asia interdependence" as the two pillars of its U.S.-Asia Policy and thus, ensuring that U.S. leadership in Asia is not threatened.

Proposal To Relax 'Residence Card' System

40050653 Beijing ZHONGGUO QINGNIAN [CHINA'S YOUTH] in Chinese No 6, 9 Jun 89 pp 4-6

[Article by Ren Xianliang 0117 6343 5328, Tian Bingxin 3944 3521 0207, Huang Guowen 7806 0948 2429, and Li Shengqi 2621 0581 2475: "China's Residency Prohibitions"]

[Text] In China, people's lives are closely intertwined with the "household registration" system. "Household registration" divides the people into two completely distinct classes: people from the city and those from the countryside. This has given rise to numerous "household registration" tragicomedies.

He was a doctor, quite well known, and he had spent most of his energy and all of his savings to change the residency of his wife, who taught school in the countryside, and their three children. After paying 8,400 yuan in supplemental city residency fees and registering his wife and three children as city residents in 1987, he solemnly told his family: "I'll be able to leave you no inheritance other than your city residency permits..."

A man with a doctorate in ethnology spent 10 years separated from his wife, who lived in a city near the border, because they could not solve their residency problem. Sometime during their 3,000 nights apart, he came up with the idea of standing on his head in bed to combat his longing and to maintain his psychological and physical equilibrium...

In Zhengzhou, a hoarse-throated household registration work veteran said that "there's not a single residency administrator who doesn't have a gravelly voice." There are simply too many people trying to solve residency problems. The administrators have to go through discussions and explanations with each person, but who believes the explanations? Some people, immediately upon entering, kneel in front of the residency administrators to beg, cry, and tell their troubles. Some even take a rope and threaten suicide if they have to wait any longer for their residency permit.

It is impossible to satisfy the demand with the two applications per 10,000 for "countryside to city" residency changes that are approved every year. In Anshan City alone, more than 11,000 "countryside to city" residency change applications have accumulated in the municipal public security bureau, but only about 2,200 new entries are allotted annually. Not to mention the new applications that will continue to come in, it will take 7 years just to approve the applications that have already accumulated.

In industry and mining alone, there six million married couples in China living apart because they cannot solve their residency problem. When these "star-crossed lovers" travel to their once-yearly reunions, they can fill up 50,000 train cars, or 100,000 buses. This forces the state to expend 2.3 billion yuan yearly on transportation.

What is more, there are the seamy incidents that occur as a result of the residency problem, such as false divorces, bribery, extortion, blackmail, public malfeasance...

Even in such cities as Beijing, Tianjin, and Shanghai, which are in the same class, people often struggle in vain for years to change their residency, whether to bring a family together or to find a better job. For this reason, some people have no choice but to go to another country to unite their families.

Why do residency permits have such magic powers? It is because the permits carry economic and social significance that cannot be minimized.

When the new household registration regulations were formulated after the founding of the People's Republic, one purpose was to facilitate planned purchasing and marketing by the state, to aid centrally planned allocation of labor, and to control urban population. However, in so doing, high walls, which are difficult to hurdle, have been built up between city and city, and between city and countryside. Anyone born in the countryside is thrown out for a lifetime upon the yellow earth to play a role as the object of "central purchases," year after year caught in an unfair trading environment, pincered by the scissors gap between industrial and agricultural prices. Anyone born in the city enjoys, as if by birthright, modestly priced agricultural products provided by "planned state marketing," generous state subsidies, as well as education, jobs, and medical service provided by the state. Furthermore, the bigger the city, the bigger the benefits and the more valuable the residency permit. One's household registration generally determines the fate of a person, of a family, or even of several generations. If one is to change his fate, he must first change his household registration.

There are only three countries in the world that use residency permits to control demographic movement, one of which is China. The closed household registration system has strangled the talents of the Chinese people. The commodity economy requires free movement by the people.

The only countries in the world that currently use residency permits to control movement by the people are China, the Korean Democratic People's Republic, and central Africa's Benin.

China's household registration system has a long history. The use of household registration to control population movement began in the kingdom of Qin with the "Shiwu mutual responsibility system." Later, as dynasties came and went, the household registration system underwent changes, but its function to control the populace was never diminished. On the contrary, it grew more and more important. This was the case with the "oversight by lineage elders" practiced during the Wei, Jin, and Northern and Southern dynasties periods, and it was equally true of the Yuan dynasty's "Baojia mutual responsibility system."

After the founding of New China, the household registration system was rather relaxed for a time. The first Constitution declared the freedom of citizens to change their place of abode. At that time there had been no chaotic mass migrations of peasants into the cities. One needed only spend half an hour at the local police precinct to procure a residency permit. Later, with the implementation of uniform economic planning and the policy of "taking class struggle as the key link," residency permits became more and more difficult to obtain, and restrictions on population movement became more and more severe. During the Cultural Revolution, when one traveled away from home and stayed in a single place for 3 days or more, he or she had to report to the police precinct to obtain a temporary residence permit and submit to local oversight.

A perusal of the history of the great migrations of the Chinese people shows that they were almost all passive in nature, forced upon the people by war, famine, or policy. This is true of the migrations of the Wei and Jin dynasties, the period of the Northern and Southern dynasties, the Tang and Song dynasties, and also of the "3 years of hardship" following liberation, when the urban population was dispersed and educated youth were sent "up to the mountains and down into the countryside."

A well-known Chinese proverb says that "running water is never rancid, and a door hinge never gets worm-eaten," and another says that "of 36 stratagems, the best is to get away." But when a Chinese wants to "run" or "get away," the first thing he or she runs into is residency restrictions. To say nothing of household registration during feudal times, with its "no one shall spread disorder" philosophy, even today, when one applies for a "countryside to city" registration change, he must prepare five copies of his identification papers, must have the application stamped nine times, and must complete 11 different procedures. Who is willing to go through such a struggle to change one's registration? Eventually it became a psychological habit and way of life for the Chinese to hold a single job all one's life, to never think about moving, to become attached to one's hometown, and to never move away to start a new business. In China, the average person changes his or her place of abode approximately 1.7 times per lifetime, while in developed countries about 20 percent of the people move every year.

The commodity economy is a "born egalitarian." It demands that people be ready to "travel anywhere," "make a home anywhere," and "start a business anywhere." But in China, those who shoulder the burden of the commodity economy constantly run into the restrictions of household registration, and they find it difficult to move about.

When the U.S. company, Xerox, set up shop in Beijing, they needed 200 technicians and managers, but so far they have hired only 60. The Beijing representative of the U.S.-China Trade Council, Martin Weil, stated

bluntly that "the lack of labor mobility is still the major headache of joint ventures in China." These foreign businessmen do not know the full impact exerted by the household registration system upon the lives of the Chinese people, which is what lies behind fact that labor cannot move about freely.

The Chinese acrobatic team is affected by the restrictions on entry into Beijing. Except for once in the early postliberation period (1953), when acrobats were recruited from across the nation, the troupe members have come only from Beijing City and its environs. Meanwhile, so near yet so far, the most superb performers of all, from Hebei Province's nearby Wujiao Village (known as the home of Chinese acrobatics), must watch from outside the ring and sigh.

In 1984, 1,395 people were sought to work in a textile mill in Hangzhou City, Zhejiang Province. However, the city's young people felt the work was too tiring and would not accept it. Youths from the countryside could not be hired because they did not have city residency permits. Only a third of the workers called for by the plan were hired.

There must necessarily be a sharp conflict between the open economy oriented to market forces, and the closed household registration system. There are several phenomena that require that the principals of the commodity economy, people, be able to move about freely, including: the movement of surplus agricultural labor, the imbalances of urban demand for labor, the need for labor occasioned by the development of labor-intensive industry in the open cities, and the need to assemble intellectuals and technicians occasioned by the development of knowledge-intensive industries. However, the household registration system has not only shackled the feet of the people who wish to move about, but has also limited the economy's vitality.

Will China's urban population explode and spin out of control if household registration is liberalized? How are we to develop the commodity if the status quo is preserved? China's household registration system is facing a difficult choice. What to do?

The economy must be opened up and household registration must be liberalized. But with the continued disparities between the city and the countryside, and the expanding urban population, can the household registration be completely liberalized?

Gao Xu [7559 2485], head of the Ministry of Public Security's Public Security Bureau, stated that "we really don't deserve the criticism we got from the National People's Congress when a delegate said that all of the public security organs are sitting on the residency permits and refuse to issue any. Many times we have reported to our superiors and asked them how to issue more permits. And how many? But there's not a single department that dares to make a decision. Before, with a stationary population, as soon as a criminal case was opened, we could pretty much draw a circle around the

area where the criminal was. Now, with the transient population increasing, that method doesn't work. Nowadays, the residence permits don't do anything to control rural villages. If the cities were suddenly opened up, could they handle it?"

Su Zhongxiang [5685 0112 4382], head of the Beijing Public Security Bureau, has a very unique perspective. "There's only one capital and, if the residency permits were opened up, it would, without question, mean chaos. Beijing now has a transient population of more than one million, which is putting a huge amount of pressure on public order in the capital. In 1987 transients were involved in 14,776 criminal cases and 9,000 minor infractions of public regulations. We also forced 50,000 illegal merchants to leave the city. Residency permits for Beijing must be strictly controlled, and reform must be carried out in an orderly and proper manner."

In Shanghai, Shi Songjiu [4258 7313 0046], head of the municipal Public Security Bureau's Household Registration Division, feels that "the conditions for opening up residency permits don't yet exist. In Shanghai, the permit for a permanent resident carries along with it a monthly food subsidy of 8 yuan. If we were to give permanent residence to the 1.8 million transients who are here now, it would increase government subsidies by 14 million yuan per month, which would be over 100 million yuan per year. On top of that, there is the pressure it puts on the city's housing, transportation, and food supply. Shanghai couldn't handle it."

The open city of Canton has felt the population onslaught even more severely. Canton plans to keep its population down to 2.5 million by the year 2000, but it has already reached 2.7 million. The size of the transient population has risen especially sharply. The crime rate among the transient population in Canton has also risen sharply in recent years. The famous "Four Kids and the Old Man" are causing great uneasiness. "The Guangxi Kids" are involved in prostitution and the sale of pornography. "The Shenyang Kids" beat, loot, rob, and murder. "The Hunan Kids" engage in thievery and begging. "The Chaozhou Kids" are involved in smuggling, confidence schemes, and the sale of counterfeit goods. "The Old Man from Xinjiang" smuggles and sells cultural relics and local specialty products. After this year's lunar new year, large numbers of people and workers thronged to Canton, sending a population warning signal to the city.

However, some demographers feel that to use administrative difficulties as an excuse to control population movement is passive and backward. Tan Jian [6223 0256], head of the Office of Research on the Political System of the Chinese Academy of Social Sciences, stated that "freedom to choose one's occupation and change one's place of abode ought to be a citizen's fundamental right. We cannot use the cities' administrative difficulties as an excuse to abrogate this right of the citizens, much less can we use restrictions on residency to make up for poor administrative performance by the

cities. Any society has criminal elements. We cannot impose residency restrictions on the masses and confine them along with the criminals just because crimes have been committed by some among the transient community. On the contrary, along with the reform and opening, we should raise the level of administrative skills. Getting rid of residency restrictions is in line with the overall trend toward a mobile population."

It was borne out in a 1987 meeting held in Canton to discuss the issue of transient populations in cities across the country and measures to deal with it that the rapidly increasing transient population is adding vitality to economic and social progress in big cities, and it has also brought a series of new problems. The benefits outweigh the headaches. It has caused the cities to switch from closed economies with a single function to open economies with multiple functions. It has contributed strongly to the flourishing commodity economy in the cities. Therefore, since the appearance of a transient population has been more beneficial than harmful to the development of the commodity economy, what reason is there not to open up city residence permits? Why does no one dare?

Following the lunar new year in 1989, peasants out to find work jammed the train stations, docks, and bus stations of Beijing, Canton, Wuhan, Shenyang, and other large cities. These cities, which had already been operating at full capacity, all at once found themselves straining under this added burden, and urban residents were quite dissatisfied with the situation. Transportation, public order, public health, and food and lodging were all deeply affected by the influx of transients. The State Council and local governments everywhere were forced to take action. They mobilized a large number of laborers to return to the countryside and do agricultural work. The transient population has sent out an unmistakable warning signal: If China were to do away with urban residency restrictions, it would be at the risk of losing control of the cities. China today, of course, cannot accept this risk.

Therefore, the relaxation of the residency restrictions, especially in the big cities, can only be a gradual process. During this process, we must resolve the huge disparity between life in the city and in the countryside, and we must reform the current policies on urban housing, prices, and government subsidies.

The Shenzhen model of "separating the person from the residency permit": severing the connection between various state subsidies and the residence permit, allowing the law of value to regulate residency, and seeking an answer through reform.

While people hesitate to make changes and continue debating interminably over whether we dare to liberalize residency permits and whether they can be liberalized at all, China's reform leader, the Shenzhen Special Economic Zone, has taken the lead in reform of the household registration system. In order to meet the fierce

competition of the international marketplace, Shenzhen must maintain a high-quality labor force. This requires a mobile labor force. In order to get around residency restrictions, Shenzhen, in line with its policy of "separating the person from the residency permit," brought in a large number of laborers from outside who had no Shenzhen residency permits to work in its joint ventures, wholly foreign-owned enterprises, and other types of enterprises. They are not subject to the restrictions of household registration. If there is work, they come. If not, they leave. Their food, clothing, shelter, and transportation are all regulated by the market mechanism, and they are treated the same as any regular resident of Shenzhen. Operating on this principle, Shenzhen has brought in 240,000 workers from outside, of whom 100,000 hold permanent employment. This has not caused Shenzhen's population to explode, nor has it caused the unemployment rate to shoot rapidly upward, its quality of life to fall, or public order to deteriorate. On the contrary, it is full of vitality. The policy of severing city residency from state subsidies meets the requirements of the commodity economy, and has proven to be a very hardy survivor.

Urbanization is an inevitable by-product of mankind's progress. During the course of urbanization, such ills as rapid population growth, deteriorating public order, and rising unemployment are unavoidable. But we cannot for that reason postpone the process of urbanization. At the Chinese Academy of Social Sciences, several demographers, including Ma Xia [7456 0204] and others, have pointed out that cities could be divided into protected districts, controlled development districts, and high development districts, in order to guide peasants into the city in a planned, orderly manner. At the same time, restrictions on urban residence permits could be liberalized so as to permit movement between cities of similar size and cultural levels, and to permit the free movement of highly educated intellectuals, scientists, and technicians. We must vigorously develop China's medium-sized cities and rural towns, strengthen and expand the channels of population movement, and relieve population pressure on large cities.

Wu Jiaxiang Advocates Neo-Authoritarianism

Personal History

40050654 Beijing ZHONGGUO QINGNIAN [CHINA'S YOUTH] in Chinese No 6, 9 Jun 89 pp 10-11

[Article by Wu Jiaxiang 0702 4471 4382: "Between the Happy Ant and the Despairing Suicide—My Experience"]

[Text] Wu Jiaxiang: Male. Born October 1955. Tongling, Anhui. Beijing University Department of Economics scholar. Currently working with a certain central department. Major research topic: Modernization of property rights. Has written poetry. Now writing prose. Has published more than 600,000 words. Feels that his most representative work has yet to be published.

My position in this world belonged originally to my older sister, who died a young death a year before I was born, soon after she had just been published. That I have been able to retain this position and continue to do so up to now is due to a "staff person," whose name and whereabouts are unknown to me, who, when I was three, rescued me from a pond, handing me over to my fainting mother. Everything I have has been given to me by someone else and I am now looking for ways to repay them.

From childhood on, no one held out any hope for me. My mother's deathbed words were, "My son won't be able to grow up..." I was just 5 years old at the time. When I was 10, I was in the first grade, and when I was 11, I was still in the first grade. In despair, my father would berate me, saying, "as a scholar you don't know how to analyze the written word, and as a person of martial arts, you don't know how to wield a sword. You're a complete good-for-nothing!" However, what bothered me even more than people's low expectations of me was the excessively high hopes they had for me after I passed the Beijing University entrance examination at the end of 1977. Both low expectations or high hopes can have an influence on a student. The former can sometimes have a positive effect and the latter a negative one. To a certain extent, I am living out the high hopes of other people.

I look on Beijing University as my second mother, my spiritual mother. However, my "mother" did not feel the "labor pains" of my birth. I did. I feel eternal gratitude toward my alma mater.

My first love was poetry. I devoted almost 10 years of loyal effort to its pursuit. It was not wasted. Poetry soothed the pain in my soul and kept me company in my days of loneliness. I was not writing poetry, only saving my soul.

My now being stuck in officialdom is a joke that fate has played on me. If poetry was my freely chosen wife, then economics is my arranged marriage. Only after having attended the university for 4 years without having applied to study economics did I develop an attachment to the field. My parting words to poetry were, "If it can't save the country and can't save the nation, what's the point?" It would be hard to deny that it was perhaps just these words that lured me into officialdom.

There have been three things in my life that I have regretted but can do nothing to remedy: my mother's early death, my short stature, and my unpleasant voice. I would like to say that I am extremely sorry for the innumerable people whose sense of hearing I have offended. Many people whom I have not met are surprised at my youth when they first see me. This is because they have heard my decrepit voice over the phone.

When I confront myself, I reflect on society. When I confront nature, only then do I reflect on life. Reflecting on life is not my occupation. It is only my hobby. I think

that someone who does not reflect on life is vulgar and shallow and that someone who always does so will most certainly commit suicide. My life lies between the happy ant and the despairing suicide victim. I feel deeply satisfied about my predicament.

It is my personal opinion that life is an exceedingly difficult struggle against death that we are bound to lose. I am thoroughly surprised that some people do not expect to die. They grab everything as if they are going to live forever, or they refuse to reflect on life as if they could permanently drift along without any purpose. I pity those young people who died early whose thinking had been constrained. I was determined not to be like that. The kind of life a person lives is determined by whether he reflects on death and by how he resists death.

While I rejoice that I have not incurred financial debt, I do owe large debts to my friends and to other close relations. Whenever I have the time, I try to repay those who have waited for me, longed for me, or shown me other considerations. However, the more I repay them, the heavier the debts become. I have a conflict with time that has created a large amount of pain in my soul.

I have been particularly concerned about a good reputation. I have felt that it is more important than life itself, since reputation is life after death. Most recently I have come to understand that, for an individual, there are things more important than reputation. For these, a person could sacrifice his reputation. These are sincerity of thought and historical responsibility.

Up to now, my most important experience has not been spatial or sensory, but rather in the realm of ideas. I have gone from being an absolutist to a relativist and from an extremist to a marginalist (bian ji zhu yi zhe, 6708 7139 0031 5030 5074). I am beginning to detest either-this-or-that choices. I do not like the brave words that declare, "If I can't go to heaven, I'd rather go to hell." And I have become disenchanted with the "all-or-nothing-at-all" way of thinking. In my opinion, most of mankind's suffering derives from this type of infantile thinking and tragic behavior.

I cannot explain what I like. I only know what I dislike. I dislike being photographed with famous people, and I dislike using exaggerated hand gestures and extreme words to elicit loud applause. What I dislike even more is equating the expression of ideas with stage performances, especially those where the beautiful young heroine suddenly turns into a young man as soon as the hisses are heard.

Position on Neo-Authoritarianism

40050654 Beijing ZHONGGUO QINGNIAN [CHINA'S YOUTH] in Chinese No 6, 9 Jun 89 pp 10-11

[Article by Wu Jiaxiang 0702 4471 4382: "Neo-Authoritarianism: The Debate Has Still Not Truly Begun"]

[Text] Up to now I have not thought out a program on the causes and cures of our society's fundamental problems. Of course, there is a faraway horizon of ideas that tempts me to travel day and night to approach it. However, no matter how hard I try, it is still so far away, so captivating, an enchanting white light from the ends of the earth... Therefore, I again start out, begin to rush about, and wander here and there.

It has not been without result. The formerly somewhat soft path I had been treading now begins to firm up. I have roughly built three base camps of ideas to serve as starting points for continuing our advance.

For the new doctrine of individual ownership, which constitutes the first base, I will set up three theoretical foundations stones (despite the current hypothesis that the doctrine is simply unreliable). The first is the four-step crisis of resources theory, which could also be called the theory of macroeconomic history. It treats the critical changes in mankind's existing environment and the revolutionary function these changes have had in transforming mankind's economic and political systems, the center of which has been the property rights system. The second is the theory of juggling of social costs (yun zhuan fei yong 6663 6567 6316 3938). It could also be called the theory of microeconomic history. It seeks microcosmic causes for the transformation of the property rights system through the study of the political costs, restrained costs (yue shu 4766 2631), production costs, and trade costs associated with the process of social workings. The third is the ownership theory of economic growth. Using designated periods of time, it seeks subjective causes for development of property rights by studying the primitive impulses rooted in the recesses of man's nature and seeks to learn which of them were effectively realized. A synthesis of the three theories will form my "theory of property rights."

The second base camp is the philosophical doctrines of dealing with concrete matters relating to facts. I think that, since modern times, Chinese philosophy has undergone a transformation from the doctrine of chaos to that of order and debate. However, provided it does not suddenly move toward positivism, China's modernization will lack philosophic support. The doctrine of dealing with concrete matters relating to work that I have explored will carry on the operating traditions of positivism and especially the practical traditions of Marxism. By correcting the handling of the mutual relationships among the three basic philosophical categories of truth, belief, and practicality, I will do my best to determine whether the doctrine of dealing with concrete matters relating to work can meet the needs of China's modernization by remedying the major defects of American pragmatism.

The third base camp, which is now eliciting loud, earth-shaking cries of alarm, is neo-authoritarianism. My studies of the new doctrine of individual ownership and the doctrine of dealing with concrete matters relating to

work have shown that it is not as urgent to discuss either of these as it is neo-authoritarianism. I am now focusing my research on the latter.

When someone asks me whether the polemic over neo-authoritarianism should be concluded, I tell them that it has still not truly begun. Reason can only truly prevail after feelings have been completely aired. Without reason, the polemic would become a political struggle.

The polemic over neo-authoritarianism is not so much about political views as it is about modes of thinking and philosophical ideas. Strictly speaking, neo-authoritarianism does not express the ultimate pursuit and the ultimate concern about values. It only attempts to point out the ultimate goals that we must reach and the roads we must take, the bridges we must cross, and the middle ground we must pass over. Why are novelists, essayists, artists, and poets so morally indignant about neo-authoritarianism? It is simply because they reject a middle ground and accept only ultimate concerns. A scholar cannot reason with a soldier's weapons. Similarly, what is the point of talking political theory to a poet?

I have always thought that the "polarized mode of thinking" that rejects the middle ground was a major defect in our national way of thinking. The more than 100 years of suffering that our nation has endured is, to a certain extent, linked to this defect in our thinking. We always want to leap up to the sky in a single bound. Very few take into account the means by which to do it. As a result, the higher they leap the more severe the consequences. We are impatient about the gradual improvement in our nation and in our living conditions. We thirst for miracles and believe that stormy mass campaigns can instantaneously create them. If we do not stop this polarized way of thinking, it is hard to say if our nation's suffering will ever end.

Neo-authoritarianism represents the political thinking of marginalism and gradualism. It does not believe that China can immediately enter into the ideal and ultimate state of freedom and democracy. It merely thinks that China's current state of authority and freedom can be improved. Where can we place current politics in China? Since the smashing of the system associated with the doctrine of political omnipotence (also known in the West as totalitarianism), its position has been disintegrating. This situation is characterized by both a lack of authority and a lack of freedom. What is the doctrine of political omnipotence? It is the incorporation into a single entity of the quadruple lives of politics, the economy, society, and culture—all under the command of political power. This type of society resembles a four-layer piece of plywood. In accordance with the precepts of neo-authoritarianism, political reform envisages allowing the four-layer plywood to be separated in order to effect independent lives for politics, the economy, society, and culture. But it presupposes the state maintaining its centralized political power. In this way, the centralized political power of the state can

promote marketization and maintain social stability. At the same time, following the separation of the plywood, freedom could develop in the other three entities, that is, the economy, society, and culture. Following the completion of this reform, we would carry out separate reforms of vertical and horizontal political authority, ultimately reaching the stage of citizen participation. This in effect is the three-stage theory of neo-authoritarianism. The current situation is not like this. Prior to peeling apart the four-layer plywood, we are first letting go of centralized state power. In this way, even though there has not been any obvious increase in independence and freedom in the economy, society, or culture, there have been obvious increases in decentralization and splits on the local and departmental levels. This has caused all our efforts to advance reform and social stability to appear inadequate. Neo-authoritarianism merely wants to readjust somewhat the strategy of political reform to enable us to make the transition from the doctrine of political omnipotence to neo-authoritarianism as quickly as possible and then go on to a modern system of democracy. It cannot be done if we divorce ourselves from the realities of China and indulge in empty talk about political development.

We naturally are sensitive to the scars left by the old Stalinist authoritarianism in the minds of the Chinese people, especially the intellectuals. If, in setting forth neo-authoritarianism, we have inadvertently caused some people to feel we have rubbed salt in their wounds, we are deeply sorry. I fully understand certain ladies and gentlemen who instinctively react because of this type of suffering, and to make clear by sincerity and regret, I will silently endure any emotional censure or even personal abuse. I want it known that I am not likely to stop my work and am unwilling to let neo-authoritarianism remain at the thesis-debating stage. I will spare no effort to intensify it theoretically. I believe in history, although sometimes I also doubt it.

Evolution of Political Thought Leading to Socialism in 1919

HK0509025989 Beijing RENMIN RIBAO in Chinese
21 Aug 89 p 6

[Article by Jin Chongji 6855 0394 0644: "Why Did They Choose Socialism"—Analysis of the Track of Changes in the Pioneering Youth's Thinking During the May 4th Movement"]

[Text] Nobody can deny the preeminent position of the May 4th Movement in the great changes in Chinese modern thinking.

This was a time of violent storms. Holding high the great banners of "science" and "democracy," advanced people mounted fierce attacks against old ideas and concepts that were obstructing China's social progress. This developed into a fierce battle between new and old trends of thought. Many young people, who were extremely depressed by the dark environment, suddenly

saw the new dawn through the huge waves surging in the ideological circles. They repeatedly compared the new trends of thought with what they came into contact with at that time, reflected on a realistic way out for China, and explored the future with a dauntless spirit.

Comparisons and reflections led to different conclusions. An identical object of criticism did not in any way mean an identical object of choice. Close partners who had stood together in opposing old ideas and concepts gradually split up. Through different channels, most of the advanced elements rallied, one after another, under the banner of scientific socialism, that is, Marxism. It was indeed the most conspicuous historical phenomenon of that time.

Why is it that after receiving the baptism of the May 4th Movement and after making repeated comparisons and reflections, so many reflective young people of high consciousness made the same choice and defined scientific socialism as their ideal? Is this phenomenon dominated by its inherent logic? This is indeed an interesting question.

Experiments and the Bankruptcy of the Bourgeois Republic Program in China

After Chinese history entered the modern age, the closed traditional society could no longer continue to go on as it was. With amazement, people saw or heard new, unprecedented truths and things from the outside world. Following the failure of the Sino-Japanese war of 1894-95, the national crisis was even more serious. People eagerly read Western books on social politics. These were all novel to them, greatly inspired them, and held a strong appeal for them. More and more people came to realize that only by taking Western countries as examples would it be possible to find a way to save the motherland, and, to this end, they did not hesitate to shed blood, lay down lives, and carry out heroic struggle, with fresh forces always stepping forward to take the places of those who fell.

This struggle reached its peak in the revolution of 1911. It took the theory of evolution, the theory of natural rights, and the democratic republic program imported from the West as ideological weapons. Those who had thrown themselves into this revolution were filled with self-confidence and were looking forward to attaining "the great objective of reforming China, when not only the dawn of a new era will emerge in our beautiful country, but all of mankind will be able to enjoy a brighter future."¹ Therefore, it is unnecessary to further explain the great historical role of this revolution in China's modern history.

At that time, many people's understanding of democracy concentrated especially on the forms of political organizations and the procedures of political activities in Western countries. After the founding of the Republic of China, not only the signboard of the republic but also the forms of political organizations and the procedures of

political activity in Western countries, such as the parliamentary system, the multiparty system, and universal suffrage, were for a time moved to China with a lot of fanfare. Many people entertained great hopes over this. A month or so before he was assassinated, Song Jiairen, who had studied in Japan and was quite familiar with the political systems of Western countries, still said with great delight: "In many democratic countries in the world, political authority is concentrated in parliament. A party has political authority only if it can win the great majority of seats in the parliament. Therefore, we should now devote ourselves to election campaigns." "We should win half the seats in parliament in order to form a responsible government by one party; even if we are in the opposition, we can still strictly supervise the government so that, having something to fear, it does not dare to act recklessly or refrain from doing what should be done. Then our doctrine and political program can be implemented."² The feelings he expressed were undoubtedly sincere and also quite captivating to the ear.

What is strange is that once they were mechanically moved to and practiced in the Chinese society of the time, regardless of China's national conditions, these interesting institutions and the political system, which had probably yielded some results in Western countries, completely changed in appearance. Universal suffrage became a mere formality; the multiparty system turned into factional infighting; in the parliament, only some politicians raised a hue and cry; and, as expected, the Kuomintang obtained a majority in parliamentary elections without bringing any practical benefits to the nationals. When the old forces represented by Yuan Shikai finished their preparations and swooped down, even the superficial stuff was cast to the winds. As you sow, so shall you reap. The founders had not foreseen this and were taken by surprise.

"Although we have paid with unlimited blood and innumerable lives, we have bought a sham republic." This lesson is indeed a very bitter one! The experiments and bankruptcy of the bourgeois republic program can perhaps be regarded as an important Chinese spiritual heritage from the revolution in the early 20th century.

Left with a serious sense of loss, many people were perplexed. They were at a loss as to what to do and even gave up all hope. However, patriots who had high aspirations did not stop advancing as a result of this. Never losing heart on the zigzag path beset with difficulties, they again started a new exploration.

Later, the calls to "transform society" and "build a new society" grew louder and gradually reverberated throughout the nation. It was the first time in the history of China's modern thinking that the question of transforming society was raised to a conspicuous position in the ideological circle and became a focal point of great concern to advanced youths. This represented people's

exploration of problems at a deeper level, a new consciousness on the part of advanced youths at that time, and another leap in the understanding of the Chinese people.

The Effect of Worldwide Ideological Changes on China

China's society had to be transformed. This became almost a common understanding among advanced youths. At first, however, most people did not know how the society should be transformed.

At this particular moment, great changes on a world scale drew the attention of advanced Chinese youths. World War I, which started in 1914 and lasted 4 years, had brought a great calamity to the people of Europe. The unprecedentedly ruthless war laid bare the inherent contradictions of the capitalist world in a more acute form than at any time before. The war left Europe in a shambles, bringing an alarmingly great disaster and chaos. For a time, people were seemingly unable to see any bright future. Now it was the turn of the people of the Western countries to have a serious sense of loss.

For a long time, advanced Chinese elements had consistently admired the prosperity of Western countries and held them up as examples to be followed by China. They followed with great interest the trends in the Western world, feverishly learning and studying new theories and ideological trends from the West. All social and ideological changes in the Western world invariably tugged at their heartstrings.

As far back as the late 19th century and early 20th century, when Western capitalism was still in a relatively stable period, some of the advanced Chinese youth began to be keenly aware of its seamy side. In the "Foreword to MING PAO" in 1905, Sun Yat-sen pointed out: "Europe and the United States are powerful, but their people are, in fact, poor. Judging by the increasingly frequent strikes and the growing activities of anarchist and socialist parties, a social revolution is not far off." In "Advantages and Disadvantages of Representative Government," Zhang Taiyan held that the Western parliamentary system was still controlled by a small number of people. But these problems failed to arouse the attention of many people at that time.

Now that the social contradictions in European countries had become so acute and that the defects of capitalism were so obviously exposed, even the confidence of many Western thinkers was shaken. This could not but shock many more Chinese who were keen on learning from the West. [paragraph continues]

The Western social system had suddenly lost its dazzling luster. They naturally came to the following conclusion: Should we still follow in other people's footsteps and take the beaten track? Why can't we strike out on a new path, adopt a newer theory, and set up a more rational society?

Why did the October Socialist Revolution under the leadership of Lenin have such a strong appeal for advanced Chinese youths? This is because it pointed a new way out for the issues they were pondering. Prior to this, the Chinese had already had some contact with Marxism, which was not accurately introduced at that time and had had limited impact. Many people occasionally touched upon it as one of the innumerable new trends of thought in Europe at that time. They did not pay serious attention to it. Now, socialism was no longer just a doctrine in books, but a living reality in Soviet Russia. After undergoing various tribulations, such as famines, civil wars, and foreign interventions, socialism still stood firm, and the workers and farmers became the masters of society for the first time. On the one side was Soviet Russia, which, regardless of the difficulties in starting an undertaking, was filled with vigor and vitality; on the other side was chaotic, declining Western Europe. There was a striking contrast between them. Naturally, this enabled the advanced Chinese youths groping in the dark to see new hopes and a new force to be relied upon, and so they quickly turned to the path of the Russian October Revolution.

Two articles, "The Victory of the Common People" and "The Victory of Bolshevism," which were published by Li Dazhao in 1918, were the earliest manifestations of the Chinese people's acceptance of the path of the October Revolution. Soon after the May 4th Movement, he again wrote: "Since the Russian revolution, Marxism has almost become all the rage in the world. The social revolutions that occurred one after another in Germany, Austria, and Hungary also regarded Marxism as orthodox." In this article, he systematically introduced Marxist theory. Li Da wrote: "Marx's socialism has been completely realized in Russia." The number of advanced elements switching to this path also increased. Wu Yuzhang, one of the earliest members of Tung Meng Hui (antecedent of the Kuomintang), said in reminiscence: "Experiencing the great era of the October Revolution and the May 4th Movement, my ideology could not but undergo very drastic changes. My feeling at that time was that there is hope for the revolution, China will not be subjugated, and it is necessary to change the previous methods of revolution. At that time, it was impossible for me to get a new, systematic, comprehensive view of the October Revolution. However, through the education of the October Revolution and the May 4th Movement, the idea of relying on people at the lower levels and taking the path of the Russians has become stronger and more clear-cut in my mind."¹ The ideological experience recounted here was not unique.

Comparisons of, and Inquiries Into, Various New Trends of Thought Under the Banner of Socialism

The process of change in social ideology is not as straightforward as people tend to imagine. There were so many new trends of thought under the banner of socialism at that time that it was difficult to distinguish them without making serious comparisons and inquiries. In the process of turning from bourgeois democracy to

scientific socialism, many progressive youths often had to undergo an intermediate link, that is, they were subjected to the influence of the anarchist trend of thought.

When recollecting the May 4th Movement, Liu Shaoqi said: "At the beginning, anarchism prevailed among various schools of socialist thought." In the course of their explorations, Mao Zedong, Zhou Enlai, Yun Daiying, Deng Zhongxia, Chen Yannian, Luo Yinong, and other outstanding elements of these progressive youths were subject to the influence of these trends of thought to varying degrees.

Why was there such a phenomenon? There were three main reasons:

First, Marxism was just beginning to spread in China at that time. Before 1920, there was no complete Chinese version of Marx and Engels' basic works, and not even one article by Lenin had been translated into Chinese. Under such circumstances, it was indeed quite difficult to genuinely understand Marxism. With the exception of a small number of people who had been abroad or who could read books in their original languages, such as Li Dazhao, who had been to Japan, Li Da, Li Hanjun, Chen Wangdan, and some Beijing University students, the many progressive youths who were beginning to be interested in Marxism knew very little about it. They were carried away by the idea of a future glorious society but did not know what this glorious society would be like or how they could achieve it. They still only had a very hazy idea. Although they yearned for a socialist society, for a time they could not make a clear distinction between scientific socialism and anarchism. There was nothing strange about it.

Second, from the very beginning, Chinese anarchists had always flaunted the banner of "socialism" and even "communism."

At the beginning, the propaganda conducted by Chinese anarchists played a positive role of enlightenment in two important aspects: 1) It encouraged people to rise up against autocracy and power; and 2) it urged people to pay attention to social issues, which had often been neglected, advocated the "sacredness of labor," and maintained that property should be publicly owned, that all people should take part in labor, and that workers and peasants were the masters of society. Early anarchist publications, such as *TIANYI* (HEAVENLY JUSTICE), carried certain passages from the works of Marx and Engels. Before and after the May 4th Movement, quite a few anarchists still cooperated with Marxists and were not as bitterly antagonistic as they were later. Therefore, it was only natural that they would easily make a good impression on many young people.

Third, the prevalence of the anarchist trend of thought among progressive young people was also related to China's national conditions in modern times, which had the suitable soil and climate for its growth. China was a country in which small producers were like a vast expanse of water. Due to their social status and mode of labor,

intellectuals were apt to lay special emphasis on the strength of individuals. The organized Chinese industrial workers in modernized mass production were still not politically mature. A specific social structure is apt to bring forth a corresponding social mentality and mode of thinking. Whether consciously or unconsciously, people were used to approaching things in the surrounding areas with the eyes of small producers. They were full of hatred for imperialist power and feudal autocracy and were anxious to eradicate them from Chinese soil. They yearned for social justice and were therefore sympathetic to socialism. However, because they were shortsighted, it was difficult for them to unite into a strong collective force, dedicated heart and soul to the same cause. It was particularly difficult for them to maintain a uniformly coordinated action for a considerably long time. They regarded the attainment of absolute individual freedom as a paramount objective. When they were infuriated by the phenomena of might and inequality in society, they would feel that "absolute individual freedom" and the seemingly very drastic and thorough methods advocated by anarchism especially suited their tastes.

These three points can be regarded as fundamental reasons for the "prevalence of anarchism among all schools of socialist ideas at first."

In practical life, people could see more clearly: If the entire society cannot be transformed and if the state and nation cannot be liberated, then the problems of individuals cannot be solved once and for all, and the best way out for society, state, and nation is scientific socialism. Its task is so arduous and the obstacles to be removed are so prodigious that the key to achieving the objective lies in uniting millions upon millions of people into a force with a single purpose and combat effectiveness. If the Chinese people continue to show the same lack of unity that they did in the past, with each going his own way, there will not be any prospects for China.

Many people eventually took a step of decisive significance.

After conscientiously comparing the various trends of thought that prevailed in Europe at that time and that flaunted the banner of socialism, Zhou Enlai, who was less affected by anarchist ideas, eventually made up his mind that "We should believe in the principle of communism and the two major principles of class revolution and proletarian dictatorship, but the means to be used should be suited to the conditions of the time." He asserted, "I will never change the doctrine I embrace and will resolutely propagate it everywhere."

The ideological experience of the forerunners is worth pondering by later generations. They did not rashly make up their minds to embrace Marxism, still less did they embrace it on an impulse or with the aim of following the latest fashion. They made this most important choice in their lives after careful consideration and repeated inquiries, comparisons, practice, and tests.

Footnotes

1. Sun Yat-sen: "A Genuine Solution to China's Issues," *Complete Works of Sun Yat-sen*, Vol 1, p 255.

2. Song Jiaoren: "Speeches at the Welcoming Meeting of the Hubei Kuomintang Branch."

3. Wu Yuzhang: "Recollections of Changes in My Ideology Before and After May 4th."

NATIONAL AFFAIRS, POLICY

Macroeconomic Changes Examined

HK0109073189 Beijing JINGJI YANJIU in Chinese
No 6, 20 Jun 89, pp 59-64

[Article by Sheng Hong 4141 3163 of the Industrial Economic Research Institute of the Chinese Academy of Social Sciences: "Macroeconomic Changes Caused by the Economic System"]

[Text] I.

Theoretical circles have different opinions on the fluctuation in China's macroeconomy since the 1980's. Without further elaboration, this is due to the fact that they have used different yardsticks to measure the same fact. Apart from the question of the concept of value, I think the main difference in opinions is a result of the different judgments on the state of affairs in the economic system. According to this understanding, the different opinions in general can be divided into two distinct viewpoints: The first viewpoint considers that China's economic system basically has not changed (or the system has been transformed from a static state into another static state, for instance, the dual system); and the variable changes in the macroeconomy are changes under the existing system. The second viewpoint considers that China's economic system is changing, and the changes in the macroeconomy are closely related to such change.

The viewpoint that considers that the system has not changed is based on the fact that the traditional system is still occupying an important position in the Chinese economy; while the viewpoint which holds that the system is changing is based on the fact that the power of the market is being continuously expanded. The fundamental difference between these two viewpoints is that they have different understandings of the changes in the system. One viewpoint considers that the transformation of the economic system is an active process; either the old system or the new system will become dominant, and the process whereby the old system is being transformed into a new system is a revolution that will be permanently effective. Another viewpoint, which is extends from this, considers that a "pure" system is relatively better than a "mixed" or "double" system. Therefore, we should either rapidly transform the present system into a new system or return to the old system—an uncertain situation is unbearable.

Such an understanding on the transformation of the economic system is obviously a result of the practice whereby history is replaced by concepts. The founders of historical materialism have divided human history into several stages, and each stage is given the name of a system (for example, the capitalist system). They did not consider that a new system would gradually emerge from an old system, and considered that the historical process of the transformation of a system would no longer exist in some conceptual stages. The main task of reform

designated by the conception of history mentioned above is to choose a good system (model), and is not to promote the progress of the system in every aspect.

Another conception of history considers that the transformation of the economic system is a continuous and gradual process, and reform should run through the whole historical process. This viewpoint does not consider that a new model could emerge within a short period of time, while it will acclaim every small step of progress in the system. Moreover, it holds the view that no obvious distinction can be drawn between the dual-track system and the double system, and they are only easy names by which it is called. A breakthrough in the traditional, single-track system is progress. However, in terms of quantity, the scope covered by the dual-track system is extremely wide. Therefore, within the concept of the so-called double system, there is a huge space for the reform of the system; and in such space, the gradual transformation of the system will be shown as infiltration.

The conception of history that views the system as a fixed static state can only discover the reasons for macroeconomic changes in the old system, and it is inevitable that it will follow the logic and experience criteria of the old system. It considers macroeconomic changes that are not within the scope of the experience of the traditional system to be abnormal or dangerous signals. It also considers that these changes are caused by the defects of the old system and will try to find out reasons from some people or units (for instance, local governments, enterprises, and consumers) of the existing system. When the theory of scarcity economics was introduced into China, some more authoritative and simple expressions of the unreasonable behavior of enterprises emerged, the impulse of expansion and the hunger for investment. Finally, the policy of the central government will, of course, be involved, and monetary and financial policy will be criticized. The conclusion is that the over-issuance of money is the factor leading to the expansion of aggregate demand.

Does this viewpoint explain clearly the factors leading to macroeconomic changes? What positive implications on macroeconomic policy does this viewpoint have? I think this viewpoint does not have any positive implications. In this viewpoint everything proceeds from the old system; it considers the changes in the macroeconomy within a certain period as macroeconomic runaway, and will then blame the old system for causing the changes. Logically speaking, it is a contradictory viewpoint. This viewpoint uses the expressions of "impulse of expansion" and the "hunger for investment" to explain the general behavior of enterprises. However, this cannot clearly explain the huge development differences among enterprises (for instance, an analysis carried out by the Research Institute for Restructuring the Economic System on the growth rates of some 400 enterprises in 1985 illustrated that the difference in growth rate among enterprises is extremely large; some enterprises had negative growth while some had a growth rate of several

hundred percent), and cannot explain clearly the growth gap among industries (for instance the comparison between the machinery industry and the textile industry).

Apparently, the "hunger for investment" and the "impulse of expansion" are possible motives of enterprises under the economic system, but they cannot explain the whole system. A soft budget is always supplementary to the facts that enterprises do not have independent management power and they have to turn over all or a large portion of their profits to the state. The policy of the central government will, of course, affect the macroeconomic situation. However, two questions here are worth discussing: (1) Why is it not possible for China after 1985 to implement a contraction policy which is as strict as that implemented in the period from 1980 to 1981? Or: Is the central macroeconomic policy a completely independent policy or is it being affected by the macroeconomic situation? (2) Are the means of the macroeconomic policy employed by China, in particular the means of a contraction policy, pure policy means or have these policies employed other means? Is the coincidence of the implementation of a contraction policy with the reversion to some parts of the old system in some time periods an accidental phenomenon?

In fact, many of the existing macroeconomic theories and methods are trying to discover factors within the system which have led to macroeconomic changes. For instance, Keynesian theories, supply-side economics, the Kornai theory, the system economics (commons), and so on. However, the common characteristics of the theories of these different schools are that they regard the economic system as a fixed entity, and their main study on macroeconomic changes is on normal economic growth and the periodic fluctuation of the economy in a medium term period.

If the economic system is under a changing situation, macroeconomic changes will not only be seen as normal growth and periodic fluctuations in a medium term period, but will be shown as a breakthrough in the medium- to long-term economic periods and super-normal economic growth, or the economic periods caused by the changes in the system. The traditional theories will not be able to explain these facts, and no corresponding new theory has been established to explain these. Development economics involves the study of the phenomena of economic development (including economic changes), but has not linked these changes with the transformation of the system on the theoretical level.

Therefore, many so-called "macroeconomic theories" cannot cover the whole scope of the macroeconomy. However, many people who do not have a correct understanding of theories and facts will easily become stuck in such a "theoretical trap." Since these existing theories have been regarded as basic truths, and have been used to describe the Chinese economy that is undergoing structural reform, many normal phenomena

in the process of economic development caused by the structural reform have been regarded as abnormal phenomena under the fixed system. In this way, incorrect judgments resulted, and all the theoretical efforts made on the basis of such judgments have come to no avail.

Only when macroeconomic theories can be rid of the narrow scope of the traditional theories, and can identify the characteristics of the macroeconomic changes under conditions of the transformation of the economic system, can revolutionary progress be achieved and can the real reasons leading to the macroeconomic changes in China over the recent years be clearly explained.

II.

Since the 1980's, the main variables (for instance the economic growth rate, the inflation rate, and so on) in China's macroeconomy have undergone periodic changes three times.

We can say that three economic cycles have emerged since the 1980's; and each of these cycles covered a period of 3 to 4 years. Such a short cycle is different from a medium to long cycle or even a short cycle of countries that have a market economy, and is also different from the economic cycle of China in the period before 1987. Apparently, such a cyclical change is a reflection of the unique historical factors of this stage.

Through the fluctuation of macroeconomic variables, we first noticed the periodic changes in macroeconomic policies. When the economy is hot, the nominal inflation rate will increase, and national income will grow at high speed, and the central government will thus adopt a contraction policy. Under the situation of economic recession, however, when the growth rate of national income declines and financial income decreases, the central government will relax the contraction policy and will adopt policies to stimulate the economy. We can also say that a contraction policy will lead to economic recession, and the relaxing of the contraction policy will lead to a hot economy. However, we have to point out that it is a passive rather than an active move of the central government to implement these policies. Every time a particular policy is implemented, such a policy will carry the nature of meeting an urgent need. It is very difficult for us to clearly judge which of these is the cause and which is the result—policy cycle and economic cycle. It is better for us to say that the policy cycle is a part of this type of cycle.

If we only recognize the policy cycle as a pure policy issue, it will be very difficult for us to discover the crux of the problem. The change in government policy is the parametric change in the fixed system, but is not the change in the system itself. However, the realities illustrate that the means adopted by China for promoting the macroeconomic policy in recent years, in particular the contraction policy, are not pure policy means, but are means that have brought great influence on the economic system, we can simply call them system means.

From the viewpoint of the price system, the stage of a hot economy is always accompanied by the reduction of the scope of price control or the relaxation of price control; while a contraction policy has always widened the scope of price control and has often intensified its degree. The general price inspection program is a typical measure for safeguarding the traditional price system. From the viewpoint of market credit, the stage of a hot economy is the period for making market contracts. Under the situation when a contraction policy is being implemented, administrative means have often been used to stop many investment projects, and have thus damaged the good faith of many related contracts. Since the government is the main buyer of agricultural products, under the situation when a contraction policy is being implemented, the government will issue paper scrip to purchase agricultural products, and will thus lessen the good faith of agricultural trade. From the viewpoint of the market structure, the phenomenon where many new companies have been established will always emerge in the high growth stage. At this time, the degree of market competition will be increased. However, one of the important aims of a contraction policy is to improve and re-organize companies, to increase the degree of difficulty in registering and setting up new companies, and to reaffirm the monopolistic position of some central departments in the market (for instance, the monopolistic power over silkworm cocoons and raw silk). This implies that free entry into the market will be constrained, and administrative market monopoly will be brought about again. From the viewpoint of the financial system, in the period when the economy is prosperous, the scope of the services offered by the state banking system will be enlarged, it will use flexible managerial means, and nongovernmental financial organizations will develop rapidly. A contractionary monetary policy will use the quota of loans to limit the diversified business of state banks (for example interbank lending and discounting), and will also constrain nongovernmental financial activities at the same time. From the viewpoint of the enterprise system, in the stage when the economy is hot, enterprises in general will have more decision-making power, and there will be active experimental activities on implementing various reforms. However, under the conditions of a contraction policy, much of the power of enterprises will be cut, and enterprise reform will be stopped or the practice of punishment and reward will not be realized; and so on. To sum up, some of the measures adopted at the time when a contraction policy was being implemented have caused China's economic system to return to the traditional system; and the relaxation of these measures and the implementation of some stimulating measures have enabled China's social system to develop toward a market system. Therefore, what lies behind an economic cycle is a system cycle.

Different economic systems have different macroeconomic characteristics. The characteristic of the traditional system is the coexistence of scarcity and unemployment, and the traditional system is always under the

dilemma where it has to choose between scarcity and unemployment. Moreover, the industrial structure of the traditional system is not a coordinated one. The characteristics of the market system are economic growth and price fluctuations; while the industrial structure of the market system is in general a coordinated one. When the state of affairs of the system is fluctuation between the traditional system and the market system, the macroeconomic state of affairs will evidence scarcity and price fluctuations. Under the situation when a contraction policy is being implemented, measures for safeguarding price control will check the increase of nominal prices, and the seriousness of scarcity will be intensified. Since the practice of price control will not transmit the information of market demand, the longer the contraction policy is implemented, the more serious the scarcity problem will be. Only when the contraction policy cannot be maintained, as a result of economic recession, and when the controls on prices and markets have been relaxed, scarcity will be released in the form of prices. In this way, in the economic cycle determined by the system cycle, the problem of scarcity will be accumulated, while under the situation of a hot economy, scarcity will be released. The fluctuation of the degree of scarcity and price fluctuation has thus formed two types of periodic fluctuations that are opposed to each other. The price increases caused by the release of scarcity will worsen the problem of normal price increases, and the increase of nominal prices will thus create an illusion which will make people nervous. Therefore, measures for meeting the emergency will be adopted. In this way, the problem of scarcity will accumulate again, and ground for next round of inflation will thus be laid.

Conversely, the reversion to the traditional system at the time when the contraction policy is being implemented will bring more constraints to the mobility of resources in the short term, the degree of market competition will decrease, and price signals will be further distorted. As a result, the allocation of resources among industries will become more uncoordinated. The rate of economic growth will not only be affected by the degree of aggregate contraction, but will also be affected by the worsening of the industrial structure in the short term. Under the latter situation, the decrease in the rate of economic growth will be more apparent. When the period of the contraction policy is over, and when the state of affairs of the system is developing toward the market system, the obstacles to the mobility of resources will be eliminated, the degree of market competition will increase, the price signals will become more accurate, and the allocation of resources among industries will be improved.

At this time, economic growth will not only include normal aggregate growth, but will also include extra growth brought about by the improvement of the industrial structure. In the economic cycle determined by the system cycle, the worsening or improvement of the industrial structure will also bring about periodic fluctuation. Since the changes in the industrial structure will

directly affect the country's national income, the periodic changes in the state of affairs of the industrial structure will increase the amplitude of the economic growth rate fluctuation. From this we can deduce that the implementation of a contraction policy will increase the rate of the next round's rapid economic growth by several percent. Therefore, the economic growth rate, which will be considered as a super high rate, will become a factor leading to the implementation of another contraction policy.

The conclusion is opposite to direct viewpoints, and a contraction policy cannot achieve the targets it wants to achieve—that is, to control the situation of the macroeconomy. On the contrary, the contraction policy and the reversion to the traditional system, which accompanies the contraction policy, will accumulate energy and will develop conditions for the next round of inflation. If system means are used to implement a contraction policy, China's macroeconomy will not be able to get rid of this type of economic cycle, which is determined by the system cycle; and in determining its macroeconomic policy, China will continue to be trapped by the dilemma where it has to choose between scarcity and nominal inflation.

III.

A reform cycle corresponds to a system cycle. We cannot deny that one of the important contents of the reform implemented in China in recent years is price reform. Viewed from this angle, a reform cycle can be divided into these stages: A stage where price control is relaxed; a stage where the plan of price reform is being formulated and preparations for implementing such a plan are being made; and a stage where a relaxed environment is being developed or a stage where the economic environment is being improved. The so-called measures for developing or improving the environment are the measures to be adopted in controlling prices when the above-mentioned contraction policy is being implemented. Following the reform cycle is understanding of the reform or a cycle of public opinion.

The nature of price reform is the transformation of price control practices into a market price system. Superficially, China's price reform has always been threatened by real inflation or inflation, and it always has had to face some sort of chaos in the market (these will often occur in the stage of a hot economy). These have added great risk to the price reform. In order to implement price reform in a comprehensive manner, the environment should be improved—that is, to check inflation and to eliminate the chaos in the market. At this time, the policy aiming at improving the environment is consistent with the economic contraction policy. However, the implementation of a contraction policy will always lead to economic recession: the national income growth rate will decrease and will even decrease to zero or negative growth. Recession will increase the losses of enterprises, and will lead to a fall in financial income,

and the income of the population will decrease relatively. Since the price reform program that has been implemented so far has been backed up by central financial support, it seems that the environment for reform has not been made flexible but has been made rigid. Under such circumstances, the implementation of the price reform will be postponed. When the economy heats up again, the environment will not be made flexible. It seems that it is difficult to implement the price reform.

In view of this analysis of the system, China's price system has been under a fluctuating situation since the 1980's. In the stage where the price system is developing toward a market price system, the scope of price control, which is fixed by the central government, will become smaller. Many types of controls on prices will be continuously transformed into market prices (or similar prices) through various channels (including illegal channels). The prices under control will gradually become market prices. However, every time a contraction policy is being implemented, and a flexible environment is being developed for price reform—or in other words, the economic environment is being improved—the control on prices will be tightened, the central government's direct control (monopoly) on the market will become strict again, and the market prices of many products will be brought under the practice of price control again. The price system will return to a control price system—this is the object of the price reform. It seems that the price reform itself will thus become stuck in a self-contradictory cycle; and the measures adopted for developing conditions for the price reform will cause the price system to regress. However, the market chaos, which is regarded as the danger of price reform, and price increases have thus resulted in a process where the price system is developing toward a market price system. Following the fluctuation of the price system is the change in the concept of legal price. Under the market price system, the price formed under a fully competitive market will be recognized as the legal price. However, under the traditional price system, the price fixed by the government and under government control is the legal price. In the stage where the economy is hot, the price formed under the market (although is not a fully competitive market) will at least be tacitly recognized as the legal price. At the time when a contraction policy is being implemented, the government will stress that all prices that are not fixed in accordance with government control are illegal prices. Apparently, these two concepts of price are mutually antagonistic to each other, and the latter is opposed to the price reform. Such a conceptual retrogression not only has not developed a flexible environment for the price reform, but has brought additional conceptual obstacles to it.

In fact, the return to the practice of price control has illustrated that the decisionmakers are more in favor of scarcity than the nominal inflation rate, which is more serious than the latter. Viewed with direct perception, the problem of scarcity will not attract as much attention

from people as price increases. However, viewed with an economic angle, the results brought by the problem of scarcity, which are system phenomena, are less economical than those brought about by price increases. In the short run, scarcity is equivalent to price increases. However, in reality, the control on prices will in itself incur a cost. The phenomena of queuing and searching, and of asking people to obtain some products through private channels will bring great social waste. In the long run, since the problem of scarcity cannot transmit price signals, the allocation of resources cannot be adjusted with the changes in the degree of scarcity, and the industrial structure will be distorted continuously. Therefore, it would not be a fundamental, long-term solution for us to return, to a certain extent, to the practice of price controls and checking nominal inflation at the cost of intensifying the problem of scarcity.

IV.

Now let us not discuss cycles, but let us comprehensively investigate the macroeconomic changes that have occurred over the past 10 years. We want to know how the various economic mainbodies in society will react to the frequent fluctuations of the state of affairs of the system. What type of long-term trends will emerge in the macroeconomy? Can we get rid of this type of system cycle and the economic cycle determined by such a system cycle, and how can we do so?

The system cycle has brought an unstable state of affairs to the system. In concrete terms, the changes in the state of affairs of a system are the result of the continuous replacement of a principle by another principle, and the replacement of a set of procedures by another set of procedures, and are brought about by the situation whereby rights can be lost and retrieved. Under such a situation, legality will only have a short-term meaning, and illegal things will not always be illegal. Social and economic good faith will often be damaged by changes in the system. This will first harm the good faith of the central government. A market economy is a credit economy. The process of marketization is a process in which the degree of social and economic good faith is being continuously increased. In this process, the guarantee provided by government credits will play a leading role. If government good faith cannot be guaranteed, a market system will not be established, and such a situation is contradictory to our hope of marketization.

Under the situation where the state of affairs of the system is changing frequently, and the degree of social good faith is low, most of the economic mainbodies in China, except the central government, will prefer to choose consumption over investment, and they will prefer short-term over long-term investment. It is because frequent changes in principles, procedures, and power structure will make it difficult for people to have stable and long-term expectations. Without long-term expectations, people will not be willing to sacrifice their current consumption for future consumption (i.e. investment); and they will also consider that when long-term

investment is compared with short-term investment, long-term investment will involve an uncertain but great degree of risk.

This trend of the behavior of various economic mainbodies will hinder China in getting rid of the system cycle. In the process where the traditional price system is being transformed into a market price system, it is inevitable that a stage where scarcity will be released will appear. At this stage, inflation will be the main danger. The tendency of high consumption caused by the trend mentioned above is disadvantageous to lowering the market price of consumption goods (and is also disadvantageous to lowering the price in society). Moreover, the low savings rate resulting from such a trend also will not be able to generate more funds for the investment projects that can eliminate the problem of scarcity. In China, the infrastructural and basic industrial departments are facing the problem of serious scarcity. The characteristic of these departments is that their investment cycle is long. If most of the economic mainbodies cannot have long-term expectations, funds will not flow effectively into these departments, and the situation of scarcity faced by these departments will not rapidly improve. The use of system means to interfere with the operation of the economy will lower the nominal inflation rate in the short-term. However, in the long-term, the low degree of good faith and the lack of long-term expectations caused by affairs of the system will hinder the process of checking the problem of real inflation, and will make it difficult for China to get rid of the system cycle.

However, in view of the realities over recent years, both the system cycle and the economic cycle determined by it are not occurring in a simple repeating manner. Some inherent forces in society have been promoting the Chinese economy to get rid of the cycles mentioned above. The measures adopted by the central government to contract the economy and to improve the environment should not be as strict as those adopted in the early 1980's. The threat of recession has made the government cautious in adopting strict and rigid measures. It has become more and more difficult for some of the control measures adopted by the government to achieve results. Therefore, although the system cycle still exists in China, in view of the overall situation over the past 10 years, China's economic system has been developing toward a market system. It is because not all the system factors can be opposed. In the practical economic process, not all principles are equivalent to each other. Some principles are better than others, and people are willing to follow the principles advantageous to them. The costs for the government to promote the principles which people are willing to follow and the costs for promoting the principles which people are not willing to follow are not the same, although the costs for promoting the latter are apparently higher. When the government tried to use prices which were under its control to replace market prices, it failed to achieve any results because of the high cost involved (for instance the general price inspection

program). In some cases, although it has succeeded in implementing price control, other more serious problems have cropped up (for instance price controls on goods sold in the free markets, and small retailers refusing to sell goods in markets). In fact, it has become more and more difficult for the government to control the macroeconomic situation through reverting to the traditional system. On the other hand, a market force is growing. This force has been maintaining a strong development impetus, because its development is closely related to its survival and its interests. Local governments have also come to understand more clearly that when compared with the reversion to the traditional system, development toward the market system is more advantageous to the development of their areas, and when compared with the practice of price control, the market price system is more advantageous to the development of their areas (please compare the development of Guangdong Province with other provinces). Therefore, local governments have always overtly agreed to, but covertly opposed, the measures adopted by the central government to contract the economy and improve the environment.

Due to such wave-like marketization trends in the Chinese economic system, the state of affairs of the macroeconomy cannot simply recycle itself. In view of the past 10 years and by taking these 10 years as a basis, since the proportion of the number of goods whose price is determined by the market has been increasing, the degree of scarcity in the Chinese economy has been reduced, and the nominal inflation rate has been, in general, higher than the real inflation rate. Moreover, various reforms (price, financial, enterprise reform, and others) have made resource allocation more reasonable (it is more apparent at the three industrial levels), and the changes in the structure have brought extra relative aggregate growth. Furthermore, the average economic growth rate has been maintained at a high level.

Therefore, in the long run, the system cycle and the amplitude of the economic cycle determined by the system cycle in the Chinese economy will become smaller and smaller, and the Chinese economy will ultimately be able to get rid of such cycles. However, this process will be a very slow one. A strong and powerful mainbody that can accelerate this process is the central government. Only when the central government has understood clearly that the problem of scarcity is more harmful than the problem of price increases, the nominal inflation rate will be lowered after the release of scarcity, the implementation of macroeconomic control through the traditional system is more uneconomical than having chaos in the market, the establishment of the foundation of a market system—laws and good faith—which is opposite to the practice of imitating market phenomena, can promote the process of marketization in a more effective and easier way, and so on, it will make a wiser choice. It can then eliminate at an earlier stage, or can slow down the pace of, the system cycle and enable the

progress of the system to bring about a period of stable and sustained economic growth.

Enterprise Shareholding System Examined

HK0509052089 Beijing JINGJI YANJIU in Chinese
No 6, 20 Jun 89 pp 72-77

[Article by Yang Chuntang 2799 2504 1016 of the Law Research Institute under the Jilin Provincial Academy of Social Sciences, written in March 1989: "An Exploration of Several Questions Relating to the Shareholding System in Chinese Enterprises"]

[Text] I. The Nature of Shareholding in Chinese Enterprises

Socialist shareholding enterprises, as a form of organizing production, are subject to the restrictions of the production form which occupies the prime position. They not only have the characteristics of general shareholding enterprises, but also have the nature of the guiding economic form in society which controls their existence.

Some comrades believe that infiltrating different shareholding entities into whole-people ownership enterprises will change the basic nature of state ownership. Thus, they feel we should not advocate the implementation of the shareholding system. Actually, the implementation of the shareholding system is an affirmation and demarcation of ownership rights. It is only by first affirming and demarcating ownership rights that the shareholding system can be implemented. The shareholding system, as an organizational form suited to the commodity economy and socialized production, does not in itself have a fixed social nature. In determining the social nature of a specific shareholding system, it is necessary to look at the proportions constituted by the various economic components within it. Because of various factors, in the socialist stage, different economic components will coexist and supplement each other for a long period, and a trend towards mutual osmosis will occur. Also, the coexistence of different economic components will produce a diversity of the shareholding entities which represent the different economic components. However, as the entities of a socialist economy are various forms of the public-ownership economy, different shareholding entities are only different names for the various organizational forms of the public-ownership economy. The rearrangement between them is in fact an expansion of the degree of public ownership, and is a necessary form in the development of the public-ownership economy towards a market economy and towards socialization. In another respect, in socialist shareholding enterprises, distribution according to work is still the main principle of distribution. That is to say, it is only possible to engage in distribution according to shareholding rights on the precondition of guaranteeing the basic interests of the workers. This is the difference between the socialist shareholding system and the capitalist shareholding system. As there is adherence to

distribution according to work as the main principle of distribution, there is no possibility that dividends income will reduce laborers' income, and thus it will not weaken laborers' enthusiasm.

II. The Nature of Dividends and Bonus Dividends in China at the Present Stage

Before looking at this question, we need to understand two preconditions: 1) Under our country's social system, accrued assets and money are the accumulation of past labor. Guaranteeing the legitimacy of turning this accumulated labor into capital for investment is actually a way of encouraging labor. If a society does not encourage people to obtain income through labor and thereby capitalize it, and instead encourages people to consume all the results of their labor, such a production mode will not be greatly different from the feudal production mode. 2) A shareholding economy has a wider source of funds and can increase the benefits of economies of scale. Therefore, it can create quite high labor productivity and this can ensure that investors obtain quite high earnings. According to these ideas, dividends and bonus dividends have the following meaning:

a) they are encouragement for accumulated labor to be turned into the form of capital; b) they are the remuneration for the enterprise corporate body's use of the shareholders' funds; c) they are compensation for the shareholders' investment risk; d) they are tightly connected with the operational benefits of the enterprise; e) they are a sign of and remuneration for quite high labor productivity. Clearly, dividends and bonus dividends in this sense take into account both accumulated labor and newly invested live labor and take into account the interests of both the owners of the funds and the laborers. This means that there is a symmetry between investment earnings and investment risks and this stimulates the overall raising of labor productivity. Thus, we can reach the following conclusion: our country's socialist dividends and dividend bonuses are a composite of the remuneration for people's accumulated past labor and remuneration for people's operational labor.

III. The Scope of China's Implementation of the Shareholding System in Enterprises

The experiences and lessons of 10 years of reform have time and again shown that the reform of whole-people ownership enterprises include two mutually-related and mutually-conditioning contents: 1) the reform of the economic operational mechanism; 2) the self-readjustment of state ownership rights. However, the reform of the economic operational mechanism always involves or requires changes in enterprise assets relationships. Only through appropriately readjusting state ownership rights will it be possible to establish a commodity economy operational mechanism.

The overall level of China's productive forces at present is quite low. Apart from some industries and a few large-scale enterprises (and including a few medium-scale enterprises), the scope of activity for the majority

of medium-and small-scale enterprises is extremely limited. State planning is not their operational basis, and their life-source is market demand. As far as they are concerned, being non-state-owned would be more appropriate. However, as to those major economic spheres and sectors which have a bearing on the national economy and the people's livelihood, such as banking, railways, telecommunications, airlines, electricity, military industries, heavy and chemical industries and so on, their control by the state allows it to control the life-blood and orientation of the macroeconomy and thus to play a conditioning role in the overall situation. Clearly, for these sectors and enterprises, there is no option but to continue to have a high degree of state ownership. Thus, for a long period to come in our country, in the readjustment of state ownership, there will be the characteristics of guidance, diversity, and various levels:

1) In industries and major enterprises which affect the national economy and the people's livelihood, state ownership will continue to occupy the leading position. Even when shareholding is instituted to a certain degree, the state should retain controlling shares. 2) In respect to small-scale whole-people ownership enterprises that are suited to dispersed operations, apart from a certain number that will be sold off to collectives and individuals, whereby the ownership is completely transferred, the rest should be turned into shareholding enterprises. That is, under the condition of scientific appraisal, state assets should be converted into a certain number of shares and the enterprise and staff and workers should be able to buy shares and become shareholders at different levels. 3) For general large- and medium-sized whole-people ownership enterprises, we should implement dual-entity ownership. That is, assets formed through productive investment from an enterprise's own funds should be seen as entirely belonging to the enterprise. 4) As far as possible, newly-established enterprises should institute the shareholding system, so that assets rights and responsibilities are clearly delineated. On one hand, the nature of the property rights of each side of the alliance will be clearly set down and, on the other, the nature of the property rights in respect of newly formed assets of the alliance should also be clearly specified.

In accordance with these ideas, the scope of our country's shareholding system should be: Those operations related to the national economy and the people's livelihood, and thus constitute the base and the lifeblood, should not in general institute shareholdings; as their function is to guarantee the speed and smoothness of economic movement and the stability of normal economic order in society. Even if a small number of shareholding enterprises appear, shareholdings should be limited to state departments and regions, including state enterprise corporate bodies. The trading and transfer of such shares will have to be subject to strict limitations. The general large-scale enterprises which have profit as their aim and are directly oriented to the

market should use the form of shareholding alliance or different levels of shareholdings to organize various enterprise groups.

Thereby, they will be able to expand the scale of economic benefits and increase the cohesion among themselves. This will give them more long-term expectations and a greater sense of social responsibility and, through the market, they will realize optimal deployment of resources. In such enterprise groups, various types of listed shares and trading of such shares will be carried out through the stock market. In the many small and medium-sized enterprises, apart from those which can be transferred to individual operations, various types of shareholding systems can be instituted, with the major form being limited liability companies. These limited liability companies that do not have listed shares should be the main form so as to maintain the stability of social and economic order and guarantee the legitimate rights of creditors and shareholders.

IV. State Shareholding Representatives and the Forms of Arranging Shareholding Rights

After affirming that the changing of state enterprises into independent commodity producers and operators is the basic goal of economic structural reform, the unity of the dual roles of the state as executive power holder and owner will no longer accord with the internal needs of economic life. This will demand that the unusual situation of the owner and manager not being separated, thereby leading to chaos in the functions of the two systems, will have to be overcome and changed. Thus, the establishment of a new system in which "the dual functions of the state are separated and taxation and profits are streamed separately" is imperative. I believe that making the financial departments or management departments personified representatives of state assets will only intensify the situation of government and enterprise functions not being separated and could easily produce actions by which administrative power replaces ownership rights. Further, making banks the representatives of state shares will not be able to resolve the problem whereby, when a bank is both a creditor and a shareholder, who the bank will represent. As to the proposal to establish state assets management committees or state assets management bureaus at various levels, such a system will be neither flexible nor easy to operate. A more feasible option is to establish, under the name of the state, various levels of comprehensive or specialized investment development and management companies to control the state shareholding rights at various levels.

The investment development and management companies will be responsible for the registration and assessment of state assets, the arranging of property rights transfer and the putting forward of proposals in terms of assets operations. Also, in their capacity as shareholders, during operations, they will supervise and assess the operators in terms of asset maintenance and assets growth as well as in terms of fund profits rates, and at set

times will receive their due shareholder earnings. When necessary, they could take controlling shareholdings and provide guidance to and impose restraint on the enterprise by appointing directors as well as through other forms. The investment development and management companies, as representative of state ownership shareholdings, will not only obtain shareholding earnings, but also on the basis of state industrial policies, flexibly readjust their own investment orientations and, through transfer, purchase and sale of shares, coordinate their activities with macroeconomic industrial policies. On the basis of the different positions of our country's enterprises in the national economy and the different degree of market regulation to which they are subject, the investment development and management companies will have to adopt different shareholding policies for different enterprises. In major industries, the state, through the investment development companies, could take controlling shareholdings so as to ensure that the state shareholding retains the prime position. Then, if the enterprise should suddenly go bankrupt, the state will have priority in purchasing the major means of production. In ordinary state enterprises, the proportion which the state should take in the shares should be determined by the share earnings and the market situation.

Another method is to implement different arrangements for preferential shares and ordinary shares in different enterprises. Because, at present, people's psychological capacity to bear changes is weak, there is an overall wish to maintain the interests factor of the state without change. At the same time, because of the large number of state enterprises and the difficulties that would be faced by all departments in selecting and appointing directors, it might be possible in a certain number of state enterprises for the state to obtain preferential shareholding rights. That means that the holders of the preferential shares generally do not participate in the economic management of the enterprise; dividends are quite fixed; the enterprise pays these dividends before those for ordinary shares; and, when the enterprise is dissolved, reorganized or goes bankrupt, the holders of preferential shares are paid off before the ordinary shareholders. If it is considered that the state assets management departments have a certain operational capacity and have the conditions to undertake risks, shareholding rights could be obtained through ordinary shares. In this way, when the companies' operational situations are good, ordinary shares will attract quite high dividends. For quite a long time to come, the shareholding rights arrangements for state-owned shares will involve the coexistence of preferential shares and ordinary shares. Initially, preferential shares will be the main components, but later it will be possible for some of the preferential shares to be converted to ordinary shares, and a shareholding system which entails risk will be instituted.

V. The Nature of Enterprise Shares and the Arrangement of Rights

Seen in terms of the development of the Western shareholding economy, corporate ownership and enterprise

ownership have a commonality. The corporate body and the enterprise are but different names, in law and economics, for the same thing. However, seen in terms of the actual situation of enterprises in our country at present, corporate ownership refers to nominal ownership by the corporate body of the entire assets of an enterprise, including the so-called enterprise shares. Meanwhile enterprise ownership refers to the situation, which has appeared in the reform of China's enterprises, whereby an enterprise, after handing up the base figure of taxes and profits, retains a proportion of funds.

Why is it then that many comrades are so anxious to stress that the enterprise shares which are to be established will have Chinese characteristics and will be different from the Western shareholding system? This is because the nature of our enterprises and the reform process determine that these enterprise shares are different from enterprise shares in the Western shareholding system. Although our country's enterprise reform began with handing down power and allowing retention of profits, the right to retain profits is not something which the state confers. Rather, it is the remuneration which an operational entity should receive from carrying out operational responsibilities and obligations. It is assets which the enterprise, as an entirety, commonly creates. Even if the state was the sole original investor, these funds are what remain after the state has made various deductions. Put another way, these funds are the benefits that an enterprise should obtain after fulfilling its dual obligations to the state (one obligation is to pay taxes to the state in its capacity as social manager and the other obligation is to pay asset-use fees to the state in its capacity as owner of the assets). They are a manifestation of an enterprise's quite high management level and optimized deployment of production factors. In another respect many newly-established enterprises use bank credit or self-raised funds to engage in their operations. After repaying their credit and deducting state taxes, earnings should naturally belong to the enterprise.

It is possible that some people are worried that doing things in this way will change the nature of whole-people ownership of enterprises. I think such worries are excessive. First, the establishment of enterprise shares is not the carving up of the existing state assets of an enterprise. Rather, it is an affirmation of the benefits which an enterprise should obtain. Second, not every enterprise in every situation will become a shareholding enterprise. Even in enterprises with good operational situations, while the absolute number of enterprise shares may increase, the relative proportion will still remain fairly small.

Third, the state will, on the one hand, be able to maintain its own shareholdings by not selling and not buying. On the other hand, it will also be able to invest further in an enterprise, so as to guarantee the situation whereby the majority of the means of production are owned by the state. Even if the state does not add to its investment in an enterprise, it will be able to transfer

state investment to other enterprises and the total volume of state assets in the whole society and their overwhelming proportion in the overall structure will not change. Thus, the establishment of enterprise shares will not and cannot lead to the economic collapse of the whole-people ownership system.

Enterprise shares, as a special phenomenon appearing during the course of the reform of China's enterprises, cannot be understood by relying on the Western shareholding system mechanism. It is also different from the operational patterns of other types of shareholdings in our country's enterprises at present. In my view, apart from appraising the characteristics of the shareholding system from the source of the enterprise shares, we also need to understand enterprise shares from the following several aspects: First, enterprise shares are a type of group-ownership system. That is, it is a system of ownership by a group, which includes the operators and staff and workers. It should not be quantified in terms of the number of operators and individuals and cannot be commonly owned by the members. When staff and workers move (outwards or inwards), their shares cannot be brought in or taken out. Second, the investment orientation of share earnings should be dual-directional. On the one hand, this should be the source for enterprise development funds and encourage long-term activities by the enterprise. On the other hand, it should be a necessary supplement for the welfare benefits of staff and workers. The fixing of the proportion between the two should be decided by comparing the anticipated benefits of the development of the enterprise and staff and workers welfare benefits. However, for some time to come, especially in a situation where the number and value of enterprise shares will be quite small, the earnings from enterprise shares should mainly be used in enterprise development. This is a principle that should be adhered to in the future in the distribution of earnings from enterprise shares. Third, in the arrangement of shareholding rights, enterprise shares are all-risk ordinary shares. As the development of an enterprise is determined by the enterprise itself, enterprise shares should follow the shareholding rights policy of ordinary shares, whereby there is high risk and high returns. That is, the share earnings enjoyed should be in accord with the size of the operational income. In another respect, we should not add all sorts of supplementary conditions to restrict enterprise share earnings. When an enterprise suffers losses, the first to bear this should be the enterprise shares, while in the distribution sequence, ordinary share rights should rank behind preferential share rights. In distribution, after deducting the fixed dividends of state-owned preferential shares and individual dividends and bonus dividends which do not exceed the enterprise funds profit rates, the remainder should be divided among enterprise shares. Fourth, enterprise shares, as part of a group ownership system, should not be directly owned by staff and workers or by the operators. It might be possible to establish an organization similar to management committee for enterprises' own assets, formed by representatives elected by the operators and the whole

body of staff and workers. This committee would then select representatives to participate in the shareholders representatives meetings and the board of directors, and exercise corresponding shareholder functions.

VI. The Characteristics and Arrangement of Individual Shareholdings

Individual shareholdings refers to a shareholding form where citizens form the shareholding entity. The existence of individual shareholders shows that individual property is allowed and protected. This is something that is closely linked with the movement mechanism of the commodity economy. First, the establishment of staff and workers' shares indicates that the laborers of an enterprise are partially unified with the enterprise's property rights entity. As far as the laborers are concerned, the form that can best motivate the enthusiasm and creativity of labor is the direct linkage of the laborers with means of production they themselves own.

Actually, the true essence of having staff and workers become shareholders lies not in the enterprise, thus having a rich funds source through the share purchases by the laborers, and not in the fact that staff and workers' shares will be able to gain a controlling position in the enterprise. Rather, the establishment of staff and workers' shares is important as it will ensure that, after purchasing shares, the staff and workers will concern themselves with the enterprise more than they did before they owned shares. Thereby, the staff and workers who hold shares will correct their behavior and work hard to raise the operational results of the enterprise. Their hope will be that by raising the operational results of the enterprise, they will be able to achieve income from their own shares. As to individual shareholdings outside enterprises, this is a manifestation of listed shares. As compared to staff and workers holding individual shares, this form, which transcends the requirement to be a staff member or worker of the enterprise, has more of a social nature and more of a commodity economy nature. This is because the pure pursuit of earnings is the real motivation of the holders of individual shares held outside the enterprises. As the shareholders all wish to obtain quite high share earnings, they have to constantly concern themselves with market changes and the operational situation of the enterprise. Then, in accordance with their assessment of the objective facts, they will rectify their share purchasing, holding, and selling activities. It is these different assessments and expectations which force share enterprises to use numerous means to improve operations.

Apart from having the common characteristics of all types of shareholdings, individual shares, as compared to state shares and enterprise shares, also have the following three characteristics: 1) Because individual shareholdings form a shareholding system which directly links interests with the person, the shareholders concern themselves with short-term distribution more than do other types of shareholders. 2) Individual shareholders instinctively hope that the policy of high dividends will be

adopted and they do all they can to reduce risk. 3) The source of individual shares is the labor income of citizens and, of total labor income, the proportion which can be converted into capital is limited. Thus, the volume of individual shares in the overall share structure of an enterprise will constitute quite a small proportion.

The existence of the above-mentioned characteristics of individual shares, together with the current weak consciousness of investment risk among citizens and the fact that the state and society have not yet formed a legal system and social atmosphere which protects private property, have determined that, in considering the arrangements for enterprise shareholdings, people should adopt more appropriate individual dividend distribution policies. That is, they should adopt a conditional dividend distribution policy which has guaranteed dividend and distribution of bonuses, one where the share earnings of individual shareholdings are divided into two parts: dividend and bonus. Under the normal operational situation of an enterprise, we should guarantee the payment of a dividend already decided upon. When enterprises incur losses, the mode of delayed payment or graduated reduced payments should be implemented. The bonus portion should vary in accordance with changes in the operational situation of the enterprise and, in the sequence of dividend distribution, the individual-share dividend distribution should be made after the state share dividends and before the enterprise share dividends.

VII. The Meaning of Corporate Shares and Their Status

The difference between a corporate body holding shares and a natural person holding shares lies in the fact that the former involves the holding of shares by an organization which is established in accordance with laws and has independent civil rights and obligations. The share dividend income obtained is enjoyed by the corporate body. After the corporate body obtains its dividends, the form and proportion of distribution is unrelated to the shares held by the corporate body. The legal consequences of the acts of the representative of the corporate shares, that is the actions of the corporate body, are the responsibility of the corporate body. Another characteristic of shares being held by a corporate body is that the position and role of the representative of the corporate shareholding, that is the operator, are stressed.

This enables the operators to demonstrate their own operational abilities without being limited by the scale of their own assets. This is actually a revolution in terms of the traditional shareholding system. Corporate holding of shares is feasible in our country. This is because this shareholding arrangement means that it is not necessary for a portion of state assets to be transferred to enterprise ownership and individual ownership. Even if the existing internal property rights relationships of state enterprises are not readjusted, it will be possible to establish share enterprises by having cross-holdings of

shares between various enterprises. In the present situation, where there is a limited accumulation of enterprises' own funds and individual savings, the implementation of various types of corporate body shareholdings is a feasible avenue in implementing the shareholding system and promoting enterprise reform. Specifically, the scope for corporate body shareholdings is: 1) Through corporate body shareholdings and controlling shareholdings between enterprises, enterprise groups can be established. In particular, in a situation where economic alliances of a contract nature are changing into economic alliances of a funds nature, corporate body shareholdings are an important means for maintaining the internal relationships within the enterprise group. 2) Enterprises under different departments or regions can, through corporate body shareholdings, establish share enterprises. 3) Any department, region or enterprise can, through the corporate body shareholding form, become shareholders in enterprises which have already implemented the share system. They can either become shareholders in share companies that have their shares listed in the market or can become shareholders in limited liability companies which do not have shares listed in the market.

The emergence and development of the corporate body shareholding system further shows the wide encompassing nature of the shareholding system, this socialized form of enterprise organization. It can encompass limited liability companies and can also encompass incorporated companies; it can encompass the so-called "one enterprise, two systems" as well as the "one enterprise, many systems"; it can encompass companies in which the controlling shareholdings are held by individuals and those where they are held by the state, and, to a greater degree, can encompass the various sorts of corporate body shareholding companies. Thus, there are great prospects and much space for the development in China of a corporate body shareholding system. As corporate body shareholding involves group ownership, the interests it represents have a relatively overall and stable nature. It has maximized expectations of share dividend income and also has the capacity to take on risks. Thus, in respect of corporate body shareholdings, an all-risk policy of shareholding arrangement should be adopted, a symmetry between high risk and high dividend earnings should be implemented and the corporate body shares should be more directly linked with the process by which the entire economy is being made subject to the market.

VIII. The Characteristics of the Internal Relationships of Share Enterprises

In share enterprises, there exist the three representative interest entities of shareholders, operators, and staff and workers. In normal situations, the three interest entities have their own value choices and pursuits. As far as the shareholders are concerned, their value choice and value pursuit is mainly the stability and growth of their anticipated share earnings. Their hopes of obtaining high earnings in the short term are often greater than their wish to earn higher earnings in the long term. As far as

the operators are concerned, as elite members with a modern management consciousness, their value choice and value pursuit is the appraisal and recognition which society will accord to them after they have implemented their operational responsibilities. They concern themselves with their own reputation and position, social influences and ideals, and the implementation of plans. Their concerns far exceed simple individual attainment of economic benefits. In their desire to consolidate their position as operators, they are far more concerned than other people about the long-term development of the enterprise, and will even sacrifice the near-term interests of the various entities in order to secure the long-term development of the enterprise. The staff and workers of the enterprises are more concerned than others with the size of wages and bonuses and the scale of welfare benefits. In a scientific enterprise structure, there should be mutual coordination between and mutual conditioning by the interests of the shareholders, the operators, and the staff and workers.

In a share enterprise, the board of directors is the representative of the corporate ownership rights and operating rights. The value choice of the corporate body must take into account the interests of the various sides of the corporate body. As the operator, although it has its own special forms of value realization and interests seeking, because it is situated in the central position in an enterprise's operations, it in fact plays a role in coordinating all sides within the share enterprise. In order to achieve coordination between the interests of the shareholders, operators, and workers, the major operators and representatives of the workers must participate in the board of directors, so that at the decision-making level, choices are made that take into consideration the interests of the three sides.

Possible 'Modification' of Contract Management System

Feasibility of Dividing Taxes, Profits

40060733 Beijing JINGJI RIBAO 21 Aug 89 p 2

[Article by Cai Yanchu 559] 6056 2806: "Feasibility of Separation of Taxes from Profits"]

[Text] Instituting the contract management responsibility system (hereafter: contract system) in state-run enterprises was an important step forward in China's enterprise reform, as it was also a one-time valuable experiment in the historical development of China's reform. In order to continue to deepen the reform, I feel that it is necessary, following an analysis of 2 years of practicing the contract system, to give thought to the choice of our next step in the pursuit of the reform.

I. Certain Problems in the Contract System

Practice during the last few years has initially proven that the contract system has indeed played a definite role in promoting the microeconomic revitalization.

However, we must also recognize that the 2-year practice of the contract system has actually had some negative effects on socioeconomic life, and that these effects have revealed some defects in the contract system itself.

For instance, the share of the state's treasury in the distribution of the national income has declined, and the amount of revenue turned over to the state by state-run enterprises has shown a downward tendency. At the same time, we see from the situation during the last 2 years that the effective capability of the state's treasury for disbursements is in fact also declining. Under the present conditions of uncertainty as to ownership rights, practicing the contract system provides only for contractual profits to be gained, but not for contractual losses suffered by enterprises, and it is only in a very passive way that the state has to accept the results of the contract relation. During the time that the enterprises practiced the contract system, it was very seldom that targets for amounts to be turned over to the state were truly determined through public competitive tendering. The contract system did not at all solve the problem of enterprises with which the administration had interfered, but merely changed the form in which this interference took place. The contractual undertaking of tax payments by enterprises is unfavorable for any readjustment of industrial policy. The methods of the contract system do not differentiate between long-term and short-term production but demand equal increases in production, and equal fulfillment of contractual targets, which is in fact a production policy without differentiation. The contract system as practiced by enterprises encourages the expansion of consumption funds. We see from the practice during the last 2 years that the extent of increases in the retained profits of enterprises practicing the contract system, as well as benefits to their workers, rose far faster than output value, returns from sales, and the profits realized by the enterprises.

II. Separation of Taxes From Profits Deepens the Fundamental Direction of Enterprise Reform

In view of the various defects in the enterprise contract system itself, some localities have started during the last 2 years a reform by experimentally instituting "separation of taxes from profits." Judging by the results of these experiments, this reform plan shows much superiority and a better feasibility compared with other proposals, and is worth promoting on a broader scale.

The following are the essentials of the "separation of taxes from profits" plan:

A. A clear differentiation of the state's administrative rights, activities, and functions from those of the state-owned property owners, and at the same time the establishment of organs responsible for the management of state-owned property, representing the state in exercising the rights of the state-owned property owners.

B. Collection of income tax from enterprises, based on the state's administrative rights. In its capacity of owner of all state-owned property, the state should share in the

distribution of after-tax profits of the enterprises, instituting a system whereby there is separation of taxes from profits and managing taxes and profits through different channels.

C. Instituting uniformed income tax rates for all taxpayers, based on the principle of a fair distribution of the tax burden, and thus creating favorable conditions for a "divided tax system," between the central government and local governments.

D. Responsibility for turning over to the state after-tax profits of enterprises may be contractually assumed by enterprises according to a certain ratio or fixed figures. Income distribution between state and enterprises may also adopt a variety of other forms, such as collecting rent from enterprises under the leasing system, or in the case of enterprises under the shareholding system, by means of dividends.

Looking at the situation in experimental areas, we see that "separation of taxes from profits" is of an important and positive significance with respect to the promotion of the structural reform of enterprises and the comprehensive reform of the entire economic structure.

First, separation of taxes from profits is beneficial for the realization of a genuine separation of government and enterprises and for the promotion of a socialist enterprise system. Under the traditional system, the double functions of the state were scrambled, turning enterprises into adjuncts of administrative organs and leaving them subject to the government's administrative interferences, which made it impossible to separate government and enterprises. "Separation of taxes from profits" for the first time separates the two functions of the state. It clearly demonstrates the ownership rights over state-owned property, which is the necessary precondition for a differentiation between ownership rights and management rights in state-owned enterprises. Freeing enterprises from direct government control, and having them take their stand in an environment of market competition, creates the necessary preconditions for true independence of the enterprises as commodity producers and for the formation of an enterprise system thereby laying a foundation to assume the responsibility for their own profits and losses.

Second, "separation of taxes from profits" essentially resolves the problem of the increasing value of state-owned property and is opening the way for market development. Under the traditional system, increased value of state-owned property is completely determined by the government-directed plan, there is an imbalance between investments and returns, and property value increases at a low rate. However, under the conditions of the contract system, there appeared a trend toward capital fund dispersal, the consequences being, on the one hand, key elements of production were difficult to reassemble, while on the other, it fostered duplicative constructions and aggravated the contradiction between

what is microeconomically and macroeconomically reasonable. Under the conditions of separation of taxes from profits, the organs in charge of managing state-owned property would represent the owners of the state-owned property, and centralize the increased values of these state-owned properties at certain centers through the actual managing organs of state-owned property, establish a direct link between investment and returns, and establish a close relationship between rights and risks. This would be consonant with the complexity of investment decisions and the peculiarity of very large risks. Alternatively, it would have found a comparatively well-suited form to cope with the continuous increase in value of state-owned property and the movement toward independence. Because the organ managing state-owned property would directly adopt market-oriented forms of conducting business, thus introducing market mechanism into the value increase of the state-owned property, this arrangement would be beneficial for the promotion of a market system and market mechanism at the same time, within the framework of the socialist planned commodity economy.

Third, "separation of taxes from profits" is beneficial for harmonizing partial interests with overall interests, and short-term benefits with long-term benefits. The traditional system ignored differences of interests between the various enterprises, obscured operational responsibilities, and robbed economic life of vitality. The contract system emphasized differences in interests and operational responsibilities, and tried to find a solution to the problem concerning the lack of vitality and motivation in business operations, which are essential qualities. However, there was no mechanism mentioned, much less found in realizing the common interests and in resolving the problems of the long-term value increase in state-owned properties. The result was the short-term orientation and the tendency to form groups among enterprises and their workers. Since "separation of taxes from profits" strongly emphasizes difference of interests and economic responsibilities, it also pays attention to common interests and the long-term value increases in properties. On the basis of guaranteeing microeconomic efficiency, this would realize the common interests macroeconomically, and, in concrete terms, ensures a steady growth the financial revenue for the state and returns for the state-owned properties.

Finally, separation of taxes from profits is beneficial for an integration of the macroeconomic and microeconomic factors in the enterprise reform, and it broadens the alternative choices available in the enterprise reform. Reform methods, such as the contract system, leasing system, and the shareholding system, mainly deal with the microeconomic aspect of enterprise reform, and essentially do not concern themselves with the macroeconomic aspect of enterprise reform, i.e., with the problems of clarifying the ownership of state-owned property and the overall management of state-owned property. The separation of taxes from profits is a primary solution for this macroeconomic aspect of the

reform, which, by adopting a variety of forms, deepens the microeconomic system in the enterprise reform. Moreover, this contract system is not the only possible system; the "after-tax contract system" is only one of the available forms. This fact gives the enterprise structural reform a much deeper character.

Now that we are aware of the above-stated points, it is in my opinion necessary to increase experiments in the "separation of taxes from profits," and, starting next year, every province, autonomous region, and directly administered municipality should select one or two medium-sized cities in their areas for experimental purposes, while municipalities listed as separate units in the state plan must be experimental points over their entire areas; all this in order to accumulate experiences in many more areas, so as to create as soon as possible favorable conditions for the initiation of "separation of taxes from profits."

Reform of Income Distribution Between State Enterprises

40060733 Beijing ZHONGGUO JINGJI TIZHI GAIGE
[CHINA'S ECONOMIC STRUCTURE REFORM]
in Chinese No 6, 23 Jun 89 pp 19-21

[Article by Fu Fengxiang 0265 0023 4382. "Further Reform of the Income Distribution Between State and Enterprises and of the Financial Budget Control System"]

[Text]The Problem of Income Distribution Between State and Enterprises

The enterprise contract system in the urban reform used the experiences made with the farm output contract system in the rural areas. The contract system was initiated out of three considerations: first, to impart vitality to the enterprises; second, to adapt to the managerial level in the present enterprises; and third, it enabled reduction of administrative interference in enterprise management. Viewed as an historical development, there had indeed been a necessity to institute the contract system, but it also raised many new problems that have to be resolved.

Under the present conditions, we cannot find a better method to take the place of the contract system; we must therefore improve the contract system, develop its advantageous aspects and overcome its shortcomings. In my opinion, we must proceed according to the following principles in the enterprise reform and tax reform in China: namely, reduce income tax, abolish the regulatory tax, institute the separation of taxes from profits, repayment of loans after tax, and fix contract obligations after tax. These five demands are mutually supportive, mutually linked, and we cannot dispense with a single one.

Contract obligations after tax: If the state allows the enterprises to contract for income tax and even circulation tax, it will lead to great difficulties in economic life. The state's methods of using tax measures will become

ineffectual in economic life. In addition, the state's financial revenue will not be able to increase when enterprise profits increase; on the contrary, revenue will shrink. It is therefore absolutely necessary to introduce contracting after taxes.

Repayment of loans after tax: The system now practiced in China of repaying loans before taxes has had its historical justification, but viewed under the aspect of needed long-range reform, I believe it has to be changed, but the change from repayment of loans before tax to repayment of loans after tax requires the resolution of two problems: First, the rate of depreciation must be appropriately readjusted. Especially in the case of enterprises which bear the heavy task of technological transformations, it is necessary to institute an accelerated depreciation. Second, loan interests must be deducted prior to taxation, while the capital is to be returned after taxation. That is also common international practice.

Separation of taxes from profits: This method requires differentiation between the two functions of government; namely, the state as an overall control of society and the state as proprietor of all enterprises owned by the whole people. Separation of taxes from profits could be linked with contracting after tax, which would be beneficial for a continuation of the contract system. It could also be linked with the shareholding system, which we intend to introduce in future for state-run enterprises. As to the lines of demarcation between taxes and profits, experts have proposed two methods: first, charging a fee according to how much the state has invested; second, by the ratio of state-owned assets. Although the former method is more standardized, it is more difficult to carry out right away, and in my opinion, the method of splitting the profit is better suited to present times. When splitting the profit, the state will determine a distribution ratio on the asset returns of each and every enterprise or trade.

The regulatory tax is levied at a specific rate for each particular taxpayer, and to institute separation of taxes from profits, it will be necessary to abolish the regulatory tax.

On the question of lowering the income tax, opinions now differ. According to one view, income tax should not be lowered. However, I believe if the income tax is retained at a 55 percent rate, many enterprises will have no profits after taxes; that would actually make it impossible to separate taxes from profits. In order to effect separation of taxes from profits, it is necessary to reduce income tax. The tax rate for state-run enterprises must come close to the rate for private enterprises or foreign-financed enterprises, in order to uphold the principle of competitive equality. In fact, our marginal effective tax rate is only about 33 to 36 percent; 3 years ago the marginal effective tax rate was about 48 percent, and up to now it has dropped 4 percentage points every year. The main reason for the drop of the marginal effective tax rate is repayment of loans before taxes. Of course,

there have also been arbitrary tax reductions and exemptions at the local level. Success in the separation of taxes from profits is therefore impossible without a lowering of the income tax, which would then also lead to a further decline in revenue from income tax.

The above-mentioned five points are one entity, mutually supportive, and it would not do to have even one of them ignored. With the reduction of income tax, tax before repayment of loans must be changed to tax after repayment of loans, and the separation of taxes from profits must be carried out at the same time, and it is on this basis that contract responsibility after tax must be implemented.

The Problem of Income Distribution Between the Central Government and the Local Governments

The system of contract responsibilities in financial budget management has been practiced for over 1 year, and it is now time to review experiences, analyze advantages and disadvantages, and on this basis determine the future direction of the reform.

From an historical perspective, we have to say that the contract responsibility system is an historical progress in the reform of the management of the state's finance and budget. It was a system that simply had to be adopted under the condition at the time, and it has indeed fulfilled its due function in such matters as preventing some provinces from "concealing their wealth in enterprises," and in stopping a further downward slide of state revenue. In that respect, we have to say that it was necessary to institute the contract responsibility system, and its function may be summed up in the following four points:

- 1) It expanded the financial autonomy of the local governments, and clarified the relationship between the central government and the local governments in matters of income distribution.
- 2) It stimulated the interest of local governments in opening up new sources of revenue, it had improved the downward trend in provincial revenues, especially those provinces that used to turn over to the state a large portion of provincial incomes. It also made the provinces change their ways of "concealing wealth in enterprises."
- 3) It spurred on local governments to economize in expenditures, and was effective in rendering budget figures more inflexible.
- 4) It spurred on construction of local infrastructures and accelerated improvement of the investment climate.

The disadvantages of the contracting financial system are of five kinds, namely:

- 1) The system weakens the state's capability for macro-economic regulation and control, and in some respects

that capability has been completely lost, while there have even been places where it had a "counter-regulatory" effect.

2) The system has had a certain adverse effect on the overheating of the economy and on the rise of commodity prices.

3) Practicing the system of contracting financial responsibilities has had an adverse effect on the formation of a unified market, and to a certain extent, aggravated the phenomenon of regional economic separatism.

4) It is disadvantageous for the separation of government and enterprise affairs. Assumption of responsibilities strengthened the inclination of local governments to interfere in economic matters and in enterprise operations, but it also became an obstacle to the intended change of governmental functions.

5) The system had caused financial revenue of the central authorities to become rigidly fixed in the system. Under conditions of currency inflation, this amounts to reducing the financial revenue of the central government thereby causing a negative growth of revenue.

By analyzing the shortcomings of the system of contracting financial responsibilities, I have come to believe that the present system has to be changed.

Judging from China's national conditions, as well as considering the experiences of other countries, the direction to take in the future reform of our budget management system must be one toward a system of divided taxes, i.e., a system of divided taxation on the basis of a division of functional and financial separations. The problem is whether instituting a divided tax system should be achieved in one step, or achieved during a gradual period of transition. This decision should be based on whether we have established the necessary favorable conditions demanded by a system of divided taxation.

The necessary conditions for the institution of a system of divided taxation are:

1) Separation of government and enterprise affairs, a clear definition of the functions and tasks to be exercised and undertaken by each: the central government, the local governments, and the enterprises. This alone will make it possible to distinguish the spheres of each party's receipts and expenditures, and only then will there be satisfactory clarity as to what these receipts and expenditures are.

2) There must be no inordinately large disparity in economic developments between the various regions. An excessive disparity would be an obstacle to instituting divided taxation.

3) There has to be a scientific and perfect system of tax collection, and there has to be a strict legal system and a system that will administer tax collection more closely.

4) Prices will have to be initially straightened out, especially prices for primary products and the parity price relations of manufactured goods.

According to China's present conditions, it would not be feasible to insist on instituting a system of divided taxation, if the above-mentioned conditions are not in place.

What kind of a budgetary system are we now to practice? In view of China's present condition, we may consider integrating the system of divided taxation and the system of contractually assumed tax responsibility, and thus institute a system of divided taxation with contractually assumed tax responsibility. In the same way as in the enterprise reform, the divided taxation system shall be changed into a system of contractually-assumed tax responsibilities after income tax, and for local governments it shall be a system of contractually-assumed tax responsibility after divided taxation.

To prescribe and implement a system of divided taxation with contractually assumed tax responsibility, it will be necessary to resolve the following three problems:

1) Clarification of government functions. With what should the government concern itself? After the division of function and rights, it shall be decided what financial rights are needed at the various levels of government. The greatest difficulty in clarifying the government's functions is to determine whether the government bears responsibility for economic development. In view of the actual conditions in present-day China, functions of the government in economic development must include construction of the infrastructure, and it must bear responsibility for investments to develop public utilities, cultural affairs and education, as well as public health. Rather difficult to decide is whether the government should engage in productive branches of the economy. The government should indeed continue to undertake industrial development of raw materials, fuel, and similar items, and the government should support new technologies and high risk undertakings. It should clear up and gradually reduce three expenditure items in the budget: The government should not invest anymore in processing industries, leaving it entirely up to bank loans.

2) Change in the system of determining the base figure for disbursements. The present system of determining the base figure for disbursements, although simple and easy to apply, has many defects. Applying the system of divided taxation with contractually assumed tax responsibility should draw a lesson from the Western formula of the appropriation method or of the factor composition method, giving priority to the factors, but also considering the current basic figures. Of course, this method requires much investigation and research, as well as computations, it is also quite difficult.

3) Dividing taxes on the basis of a clearly defined organizational functions. China's current conditions require two types of taxes: "special" and "general," with

the general taxes accounting for a somewhat larger proportion, in order to stimulate enthusiasm in the central government, as well as in the local governments.

The special taxes refer to the central government's taxes involving macroeconomic regulation and control or foreign trade, as well as those involving economic structural adjustments. These are, specifically, customs duties, product tax (this refers to a product tax on the basis of levying added-value tax), and especially consumption tax and investment tax.

General taxes refer to those yielding large revenue, including the income tax and added-value tax of the enterprises. Income taxes include taxes on central government enterprises, going by territorial principles and not the organizational division of the enterprises.

Aside from the central government's special and joint taxes, all others are in the category of special local taxes.

After dividing the taxes, regions with revenue in excess of expenditure shall turn over revenue to the central government, while regions with an excess of expenditure over revenue, shall receive subsidies from the central government. As to the amount of revenue to be turned over or allocated as subsidy, various forms of contractual undertakings may be adopted. This system could be generally applied in the coastal regions and well-developed areas. The less developed areas should basically apply the contract system, but to avoid a counter-regulatory effect on tax revenue, product tax must not be made the object of any contractual assumption of financial responsibilities.

What Work is To Be Accomplished This Year and the Next Year?

To alleviate the present financial difficulties and to face the upcoming peak of loan repayments in the near future, also to lay a foundation for future reforms, the following is the work which, in my opinion, we shall have to perform to perfection in our reform of finance and taxation during this and the subsequent year:

1) Selection of pilot areas and mapping out a plan to try out the system of budgetary management by means of divided taxes and contractual assumption of financial obligations.

2) Repayment of loans after taxes instead of before taxes, and to stipulate that all new loans beginning 1 January 1989 must be repaid after taxes.

3) Expanding the system of separation of taxes from profits. To contract this work out after taxes as pilot projects in selected areas, aside from selecting a few cities, some provinces also should be selected. Pilot areas cannot be set up on a voluntary basis, they must be selected.

4) Value-added tax and product tax must be collected outside or at the regular price. A dual system using added-value taxes to raise financial income, and the

product taxes to regulate and control the economic structure should be established.

5) This year, preparations should be completed for the compilation of double-entry budgets, and next year double-entry budgets should be compiled everywhere. This will enable rigid implementation of the budget. Normally a budget must not show deficits, and there must be a sequence in the construction budget: first, a surplus in regular income; second, earnings from assets; third, incurring indebtedness. A double-entry budget will lead to rigid implementation of the budget.

6) In integration with the industrial policy of the state, collection of an investment tax should be started, which will be beneficial in retrenching the scale of investments and in making it through the peak period of loan repayments.

7) Improving the export tax refund procedure. Divide the export tax refund between the central government and the local governments in accordance with the principle of separating added-value tax and product tax and the ratio of income between the central government and the local governments.

8) To successfully get through the peak period of loan repayments, assets of large, state-run enterprises should be sold by means of selling shares in these enterprises, and the receipts used to pay for the state's debts.

9) Tightening allocations of special items, to be reduced by at least one-third.

10) Study and analysis of the advantages and disadvantages of compartmentalized contracts, and find ways to improve the system.

'Gradually Eliminate' Contract System

40060733 Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese
No 32, 14 Aug 89 p 12

[Article by Jiang Yong 3068 3057, 10 August 1989: "The Contract System Could be Gradually Eliminated"]

[Text] At a series of meetings called recently by the state council the topic has always been whether to continue or discontinue the system of contractual financial responsibility of enterprises toward the state. Most recent news indicates that the system of contractual assumption of financial responsibilities by enterprises, which was so popular for a while, will be abolished and replaced by a system of separating taxes from profits. As we hear, the transition will be a gradual one to lighten the psychological shock as much as possible. The contract system can be expected to last into next year or into 1991. That means, only after complete implementation of the "improvement of economic environment and rectification of economic order," according to prior plans, will new measures be taken in a new atmosphere of further reforms.

The contract system has had its merits during the industrial reform, but there has been argument about the defects of the contract system right from the start. The debate was hottest with regard to the basic figures of contracts and the short-range orientation in enterprise activities. This went on until the end of last year and the beginning of this year, when a vehement argument erupted about the overall situation of the so-called distributions between individuals, enterprises, and the state. On one side there was the Ministry of Finance and on the other side the Commission for Restructuring the Economic System, and although the violent quarrel between these two parties has never come out fully into the open, different analyses have repeatedly appeared in the newspapers and attracted general attention.

The weaknesses and advantages of the contract system have been very obvious, but it has been impossible for the time being to do anything against the overly-low contract base figures and the short-range orientation of enterprises. Even though the relevant authorities issued many appeals, there has been much talk and no action to develop and perfect the contract system.

According to reliable information, the Chongqing area, under the direction of the Ministry of Finance, is now setting up pilot points to try out the system of separating taxes from profits. That means that an amount of profit to be turned over to the state will be determined after the enterprise will have paid all due taxes, to ensure that the

state will receive the largest share from enterprise earnings. This method has been tried out in the past, but has never become the predominant method. If carried out after 1991, it will indeed be a breakthrough in resolving the overall problem of state interests versus enterprise interests.

The problem is that some ideological pressure, we are afraid, still exists against the transition from the contract system to the system of separate treatment of taxes and profits, i.e., pressure on the enterprises will increase, while this will hardly impart new vitality. We therefore believe that further supportive measures need to be studied. To have an appropriate transition, concerned quarters have already indicated that no great changes will occur in the contract system during at least this year as well as the next year.

As to whether the abolition of the contract system is a way to stop the enterprises from slipping back to privatization and shareholding system in order to ascertain the socialist character of the enterprises seems to be quite another question.

July Economic Indexes Released

HK2509114/89 Beijing CEI Database in English
25 Sep 89

[Text] Beijing (CEI)—Following is a list of the main technical economic indexes of some major enterprises in July, 1989 released by CSICSC [China Statistics Information Consultancy Service Center].

Main Technical Index of Major Enterprises

| | | Unit | 7/89 | 7/88 |
|----|--|--------------|--------|-------|
| A. | Coal industry | | | |
| 1. | Ash ratio of commodity coal | percent | 18.16 | 18.81 |
| 2. | Waste rock ratio of commodity coal | percent | 0.08 | 0.14 |
| 3. | Mine timber used in coal mining | cubic meters | 39.11 | 48.08 |
| 4. | Total power consumption | 10,000ton | 37.75 | 38.52 |
| B. | Oil industry | | | |
| 1. | Proportion of oil wasted percent | kwh/ton | 1.81 | 1.56 |
| 2. | Power consumption in production | kwh/ton | 78.4 | 69.4 |
| C. | Power industry | | | |
| 1. | Proportion of qualified power cycle | percent | 91.02 | 96.65 |
| 2. | Proportion of dissipation in wires | percent | 8.74 | 9.24 |
| D. | Metallurgical industry | | | |
| 1. | Proportion of qualified pig iron | percent | 99.98 | 99.98 |
| 2. | Proportion of qualified rolled steel | percent | 98.76 | 98.7 |
| 3. | Iron ore consumption in production of pig iron | kg./ton | 1782 | |
| 4. | Comprehensive coke ratio | kg./ton | 567 | 555 |
| E. | Machine-building industry | | | |
| 1. | Off-iron ratio | percent | 7.77 | 7.43 |
| 2. | Power consumption in electric steel making | kwh/ton | 744.76 | 763.2 |

Main Technical Index of Major Enterprises (Continued)

| | | Unit | 7/89 | 7/88 |
|----|--|-------------------|--------|-------|
| 3. | Coke consumption in cupola furnace and metal furnace | kg/ton | 119.36 | 131.3 |
| F. | Chemical industry | | | |
| 1. | Volume of acetylene derived from calcium carbide | litre/kg | 288 | 292.5 |
| G. | Building materials industry | | | |
| 1. | Proportion of first-rate plate glass | percent | 71.96 | 56.78 |
| 2. | Comprehensive power consumption of cement | kwh/ton | 109.1 | 107.5 |
| 3. | Power consumption of plate glass | kwh/case | 7.07 | 5.73 |
| H. | Textile industry | | | |
| 1. | Proportion of over first-rate yarn | percent | 98.75 | 99.41 |
| 2. | Proportion of first-rate cloth in storage | percent | 96.87 | 97.8 |
| I. | Railway | | | |
| 1. | Coal consumption of steam locomotive | kg./10,000 ton km | 111.2 | 105.3 |
| 2. | Diesel consumption of diesel locomotive | kg./10,000 | 24.3 | 23.4 |
| 3. | Diesel consumption of inland river vessels | kg./1,000 ton km | 6.53 | 6.51 |

PROVINCIAL

Report on Housing Reform in Guangzhou

HK0609101389 Beijing ZHONGGUO XINWEN SHE
in Chinese 1541 GMT 28 Aug 89

[Report by Reporter Xing Jian 6717 0236: "Guangzhou To Carry Out All-Round Housing Reform Beginning From National Day"—ZHONGGUO XINWEN SHE Headline]

[Text] Guangzhou, 28 Aug (ZHONGGUO XINWEN SHE)—At a press release conference held today, Vice Mayor of Guangzhou municipality Shi Anhui announced that an all-round housing reform will be carried out in Guangzhou beginning from 1 October.

A general method to be followed in the housing reform in Guangzhou is: "Starting to sell houses, increasing rents by stages, providing allowances accordingly, and pursuing a new system for the distribution of houses." "Starting to sell houses" means that public houses will be sold to existing tenants, and that public houses will be gradually privatized. All public houses, whether they are directly administered by the Housing Administrative Bureau, or built by various units, can be sold with the exception of those public houses which cannot be sold according to policy.

According to Shi Anhui, Guangzhou began to study the issue of housing reform in 1987. After that, it published a circular on soliciting opinions for the plan of housing reform. In the course of implementing the plan on an

experimental basis, the opinions of residents were further pooled. A large-scale activity "Thousands of Households Talking About Housing Reform" was held last year, and housing reform became a popular topic of discussion among residents. Experts and government leaders also talked with residents to discuss the matter of housing reform.

Shi Anhui added: The plan for all-round housing reform to be implemented in Guangzhou has been worked out on the basis of absorbing the opinions of residents, and has been repeatedly examined by experts. Compared with the initial plan, we find out that considerable amendments have been made. Amendments have been made after considering the capability of enterprises, units and individuals in sustaining the difficulties they might possibly encounter.

According to this official plan, within a year after the implementation of the plan, those who buy public houses at one single payment will enjoy a preferential treatment of 50 percent discount of the original prices of the houses.

Shi Anhui continued: There are some stipulations in the plan aimed at combating unhealthy trends in the affairs of public houses. With regard to those houses which "exceed normal standard," their buyers or tenants must pay more when renting or buying them. Helping households which have difficulties in housing issue is a major content of the plan.

Shi stressed: The plan has been proved successful by a large-scale experiment. This year an experiment was made in Xinhua township of Huaxian county. The township intended to sell public houses covering an area of 350,000 square meters. Now 340,000 square meters of houses have been sold. Buyers bought the houses at a single payment. County party secretary of county magistrate of Huaxian County has bought public houses.

At today's press release conference, Shi Haian stated that he also intended to buy a public house, but he could not afford a single payment. Probably he would pay by installments.

Jiangxi Price Reform

40060671 Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 6, 15 Jun 89 pp 18-21

[Article by Xu Baosheng 6079 6283 3932: "Reflections on a Decade of Price Reform in Jiangxi Province"]

[Text] Prices in Jiangxi province have undergone eight modifications and six deregulations in a decade of reform. The eight price modifications were as follows: 1) The procurement prices of agricultural sideline products were raised in January 1979; 2) The production price of coal was modified in May 1979; 3) The prices of 8 categories of nonstaple food were modified in November 1979; 4) The prices of tobacco and alcohol were modified in November 1981; 5) Textile prices were modified in January 1983; 6) The prices of rail and water transport were modified in January 1984; 7) The prices of non-staple foods, such as grain in rural areas and pork in towns and cities, were modified in the first half of 1985; 8. Some food prices were modified in March 1988. The 6 price deregulations were as follows: 1) The prices of small commodities were deregulated in 1982 and 1983; 2) The prices of means of production outside of the state plan were deregulated in February 1985; 3) The procurement prices of most agricultural sideline products were deregulated in April 1985; 4) The prices of manufactured goods, such as watches, sewing machines, and alarm clocks, were deregulated in August 1985; 5) The retail prices of 7 categories of manufactured goods, such as refrigerators and famous brand bicycles, were deregulated in September 1986; 6) The prices of 13 famous brand cigarettes and 13 famous brand liquors were deregulated and the prices of medium- and high-grade tobacco and alcohol were raised appropriately in July 1988. These eight price modifications and six price deregulations enabled a certain amount of improvement to be made in the irrational price situation that had long existed, and played a positive role in speeding up economic development and reform. This can be seen mainly as follows:

1) Price reform quickly sped up the growth of agricultural production, the rational restructuring of rural industry, and the development of the rural commodity economy. Statistical data shows that the procurement price index for agricultural sideline products in Jiangxi

rose 178.3 percent from 1978 to 1988, for an average increase of 10.8 percent a year, whereas the average increase from 1950 to 1978 was only 2.8 percent a year. Jiangxi's output of grain and oil-bearing crops increased sharply to 15,159,000 tons and 328,300 tons, respectively, by 1988, or 34.7 percent and 143.2 percent, respectively, more than in 1978. The output value of cash crops increased 96.5 percent from 1978 to 1988 and their proportion of the output value of all crops rose from 7.5 percent in 1978 to 10.4 percent by 1988. The output value of vegetables and fruits increased 80.6 percent from 1978 to 1988 and their proportion of the output value of all crops rose from 9.2 percent in 1978 to 11.6 percent by 1988. The output value of the livestock industry increased 190.7 percent from 1978 to 1988 and its proportion of the GVAO [Gross Value Agricultural Output] rose from 12.7 percent in 1978 to 20.6 percent by 1988. The output value of fishery increased 345.2 percent from 1978 to 1988 and its proportion of the GVAO rose from 1.1 percent in 1978 to 2.9 percent by 1988. The growth of agricultural production speeded up the prosperity of the rural commodity economy. The value of agricultural products sold by peasants throughout Jiangxi reached 7.208 billion yuan by 1988, or 410.8 percent more than in 1978 or, minus the price increase factor, 83.4 percent.

2) Price reform speeded up the restructuring of industrial production and the growth of raw and processed materials, power, and light industries. Since price reform raised the prices of raw and processed materials and power, it stimulated the growth of basic industries. The value of industrial output of coal, power, metallurgy, and building materials increased 49.3 percent, 165.2 percent, 256.2 percent, and 318.6 percent, respectively, from 1978 to 1988. The raising of commodity prices, such as tobacco and alcohol, cotton textiles, paper, and leather, the devolving to enterprises of a certain amount of authority to set their own prices, and the gradual deregulation of the prices of small commodities enabled light industry, and industries that are closely linked to the people's livelihoods in particular, to grow rapidly. The output values of light industry, the food industry, the textile industry, and the paper industry increased 247.9 percent, 87.1 percent, 212.2 percent, and 307.4 percent, respectively, from 1978 to 1988.

3) Price reform began to shrink the price parties between industrial and agricultural products and tended to better coordinate the ratio of agriculture to light and heavy industry. The overall procurement prices of Jiangxi's agricultural sideline products increased 178.3 percent since 1978, while the overall retail prices of its rural manufactured goods increased far less, or only 43.8 percent, which shrunk the price parties between industrial and agricultural commodities 48.3 percent. The ratio of agriculture to light and heavy industries was 1:0.67:0.83 in 1978, but tended to become better coordinated and was adjusted to 1:0.98:1.07 by 1988.

4) Price reform gradually strengthened market forces, stimulated circulation, and invigorated the rural and

urban economies. Price reform speeded up the development of an open form of circulation with more parts, channels, and prices and fewer links. Jiangxi's total volume of retail sales of social commodities was 16.419 billion yuan in 1988, or 3 times that of 1978 and, figuring in price increases, was still 1.3 times that of 1978. Jiangxi now has 239,000 retail commodity outlets, or an average of one commercial service organization per 151 rural and urban residents. Since the long-lasting situation of certain commodities being in short supply, out of stock, and bought out by military platoon leaders has been basically eliminated, supply by voucher has been abolished for all commodities except a few consumer goods, such as grain and oil. Jiangxi has 2,440 rural and urban farmer's markets with a volume of business of 4,470,000,000 yuan a year. People are generally pleased with the big variety and good quality of the fresh produce at country markets. Urban residents buy 90 percent of their vegetables, poultry, eggs, and aquatic products at farmer's markets:

5) Price reform played an active role in increasing public accumulation and balancing revenue and expenditure. Initially adjusted statistics show that Jiangxi revenue increased about 170 million yuan in 1985 due to price modification. Prices were stabilized and Jiangxi revenue increased about 100 million yuan in 1986 due to price modification. Jiangxi revenue increased 420 million yuan in 1987, of which about 152 million yuan, or 36.5 percent, was due to price modification and, deducting 1987's increased state finance price subsidy expenses, a net of 80 million yuan, or 19 percent of Jiangxi's increased revenue in 1987, was due to price modification. Price reform took a big step forward and about 300 million yuan (including reduced price subsidy expenses), or 69.3 percent (not including reduced price subsidies) of Jiangxi's increased revenue in 1988, was due to price modification;

6) Price reform raised the living standards of rural and urban residents. Statistical data from a sample survey of rural and urban residents shows that the average cost of living income per city dweller in Jiangxi was 885.12 yuan in 1988, for an increase of 672.36 yuan or 316 percent over 1977's 212.76 yuan and an average increase of 13.8 percent a year. Whereas the cost of living price index for staff members and workers rose only 85.9 percent, or an average of 5.8 percent a year from 1977 to 1988. Thus, it should be pointed out that the income of urban staff members and workers increased more than the price index. The average net income of Jiangxi peasants was 488.16 yuan in 1988, for an increase of 347.46 yuan or 247 percent over 1978's 140.7 yuan and an average increase of 132 percent a year. Whereas the cost of living price index for peasants rose only 64.7 percent, or an average of 5.1 percent a year, and prices of the agricultural means of production rose only 62.4 percent, or an average of 5 percent a year, from 1978 to 1988. Thus, it can be seen that the net income of peasants also increased more than the price index.

Through a decade of price reform, Jiangxi has made a big improvement in its overcontrolled and overcentralized pricing system, devolved price control jurisdiction over most of its products to lower administrative levels, and expanded the scope of its market-regulated prices. Data on Jiangxi's total volume of retail sales of commodities shows that the ratio of state-set prices to state-guided and market-regulated prices had reached 34:66 by 1988 (The ratio for agricultural sideline products was 23:77). But from an overall perspective, price reform is still superficial and in an initial phase of devolving authority to lower administrative levels. Thus, Jiangxi's reforms to rationalize its pricing system still contain the following diverse issues that must be further resolved:

1) The prices of major agricultural products have reverted to their "low point" and the price relations between major agricultural products and manufactured goods have regressed in a new flight of steps. Jiangxi Province's rich agricultural resources and too low prices for its agricultural products are especially unfavorable factors for its economic growth. For instance, the overall average procurement price for rice that was 31.16 yuan per 100 kg in 1984 had risen to 41.41 yuan per 100 kg by 1988. But the overall average selling price of urea that was 0.52 yuan a kg in 1984 had risen to 0.93 yuan a kg and its negotiated price was 1.2 yuan a kg by 1988. The 100 kg of rice that could be traded for 59.9 kg of urea in 1984 brought only 44.5 kg, or only 34.5 kg at negotiated prices, by 1988. And 100 kg of rice brought 1,558 boxes of matches in 1984 but only 690 boxes by 1988, and brought a weight of soap of 70.3 in 1984 but only 15.1 by 1988. Taking another example, 100 kg of sugarcane could be traded for 4.61 kg of refined sugar in 1984 but only 4.33 kg, or only 3.24 kg based on the peasant purchasing price, by 1988. Taking further examples, 100 kg of cotton could be traded for 189.35 kg of refined sugar in 1984 but only 156 kg by 1988, and brought 972 kg of table salt in 1984 but only 880.6 kg by 1988. These irrational price relations between major agricultural products and manufactured goods are a very great limitation on Jiangxi's production growth of major agricultural products:

2) The price relations among agricultural products are still irrational. Since the state reform policy of combining price modification with price deregulation for agricultural products was affected by supply and demand relations, the prices of major agricultural products that were modified according to plan increased only a little, while price deregulation allowed the market-regulated prices of agricultural sideline products to increase sharply. For instance, the procurement prices of rice, sugarcane, edible vegetable oil, and cotton increased only 32.9 percent, 40.1 percent, 39.5 percent, and 35.9 percent, respectively, in 1988, which was far less than the price increases for hogs, tea, fruit, and lumber of 151.1 percent, 104 percent, and 108.2 percent, respectively. These new irrational price relations will directly affect Jiangxi's overall development of agricultural production and rational restructuring of agriculture, and may cause

some peasants to give up production of major agricultural products and switch to production of agricultural sideline products with higher rates of exchange or to secondary and tertiary rural industries;

3) The price relations among manufactured goods are also still irrational. The prices of minerals, power, and raw and processed materials are still too low, while those for manufactured goods are too high. The difference in the tax rate per 100 yuan of profits for state-owned industrial enterprises in Jiangxi was still too great in 1988. For instance, the tax rate was 13.15 percent per 100 yuan of profits for heavy industry, including 7.12 percent for the excavation industry, 8.09 percent for the power industry, and minus 3.74 percent for the coal industry. The tax rate was 25.29 percent per 100 yuan of profits for light industry, including 25.39 percent for light industries that use agricultural products as raw materials, 17.31 percent for the food industry, 29.8 percent for the soft drink industry, and 18.01 percent for the textile industry. These tax rate discrepancies have made it hard for some enterprises that earn little profits or incur losses to stay in business;

4) The prices of industrial consumer goods have all increased. The factory price index for manufactured goods in Jiangxi rose 21.6 percent in 1988, while the retail price index for manufactured goods for daily use rose 14.6 percent. The prices of industrial consumer goods increased for the following reasons: 1) The supply of materials within the state plan decreased after prices were deregulated, forcing enterprises to increase their percentage of purchases outside the state plan. The prices of materials outside the state plan were not only more than twice as high as those within the state plan, but have also increased more than 10 percent; 2) The deregulated prices of agricultural products used as raw and processed materials increased too sharply. The purchase prices of raw and processed materials, fuel, and power for Jiangxi industrial enterprises were 34.1 percent higher in 1988 than in 1987.

In order to better rationalize price relations, I am making the following suggestions:

1) Beginning in 1990, a period of 5 years or even a little longer should be used to gradually deregulate completely the procurement prices of grain, oil, sugarcane, and cotton that are not yet deregulated. Some rationing for city dwellers should be supplied at market-regulated prices in order to eliminate the discrepancy between buying and selling prices. Moreover, an open form of subsidization should be used to compensate staffmembers and workers and as a buffer against panic-buying by city dwellers, who can be supplied at the original value of their surplus grain vouchers.

Although it is inevitable that the prices of agricultural products will increase sharply after they are deregulated completely, this increase will have more advantages than disadvantages. Completely deregulating the prices of agricultural products will play a positive role both in

resolving the issue of irrational price relations between agricultural sideline products and manufactured goods and those among agricultural products, and also in fully rationalizing price relations. Moreover, price signals, whether up or down, will stimulate peasants' production initiative, speed up the overall growth of the rural economy, increase the supply of agricultural sideline products, ensure market demand, and ease supply and demand conflicts;

2) Planned prices for industrial means of production should be modified, and the "dual-track pricing system" for means of production should be gradually abolished. About 5 years or even slightly longer should be used to gradually increase the prices of industrial means of production within the state plan, such as minerals, power, and raw and processed materials, to make them closer to market-regulated prices. Then, the "dual-track pricing system" for the means of production should be abolished and market-regulated prices should be put into full effect. Moreover, the prices of manufactured goods should be set strictly according to the principle of fixed prices, i.e., fixed prices based on reasonable costs, average profits, and unified product tax rates, in order to keep them from increasing too much.

Although it is also inevitable that the factory prices of manufactured goods will increase after the "dual-track pricing system" for industrial means of production is abolished, this increase will also have more advantages than disadvantages. Abolishing the "dual-track pricing system" for industrial means of production will play a positive role in resolving the issue of irrational price relations among manufactured goods, settling the matter of the big tax rate discrepancy per 100 yuan of profits between light and heavy industry and between the excavation and manufacturing industries, and fully rationalizing price relations. Moreover, price signals will stimulate the initiative of enterprises that produce minerals, power, and raw and processed materials, speed up the overall coordination and growth of industrial production, increase the supply of minerals, power, raw and processed materials, and ease market supply and demand conflicts by meeting the demands of manufacturing industries;

3) Price control should be strengthened along with gradual price deregulation. We are now in the "assault" phase of price reform. Price modification, deregulation, and control are all price reform. Strengthening price control in the field of commercial circulation will be a major link in carrying out reform smoothly and achieving positive results, and control of market prices must absolutely not be eased. These are important lessons that should be learned by studying price reform. Thus, it will be essential to begin to enact commercial legislation as soon as possible.

4) Wage reform should be carried out along with price reform to gradually settle the conspicuous issues of "everyone eating from one big pot" and "the income disparity between manual and mental workers" that exist in the field of distribution;

5) Market forces should be developed and perfected to finally realize an economic operating mechanism in which "the state regulates and controls the market, and the market guides enterprises."

After there is a major improvement in the climate and conditions for price reform and the government has checked the current inflation trend through macroeconomic regulation, Jiangxi will begin to carry out comprehensive price reform. All enterprises will then become fully oriented toward competitive markets, market control will be included in the legal system, indirect control will be realized through legal means, market supply and demand relations will be allowed to determine all commodity prices, well-developed market forces will be established, a pricing system suited to a socialist commodity economy will be able to be gradually set up and perfected in a climate of open market competition, and an economic operating mechanism in which "the state regulates and controls the market, and the market guides enterprises" will finally be realized.

FINANCE, BANKING

China's Financial Deficits: Causes, Solutions

40060731 Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 14 Aug 89 p 4

[Article by Huang Zhongfa 7806 0022 4099 of the Ministry of Finance's Science and Research Institute: "The Manifestations, Causes, and Solutions to the Present Financial Problems"; passages in italics as published.]

[Text] A Less Than Optimistic Financial Situation

Over the last 10 years, through reform, the once highly centralized financial power has been devolved and handed down to the localities and enterprises. This has given the local departments and enterprises greater production and management enthusiasm and incentive to make more and waste less money. But because for the past decade, we have focused on devolution of power and yielding of profits, the central government has given up too much power and yielded too much profit too soon, and the state's income has fallen sharply; the financial outlook is grim. And although the nation's economy has been growing at a fairly rapid rate, the state's income not only has not kept up but has shown negative growth. The state's financial situation is dismal. Specifically:

A decade of economic reform—nine years of financial deficits

We can no longer ignore the serious financial deficits incurred during the decade of reform, especially the central government's deficits. There are many causes to the financial deficits. They are due partly to the need to repay old debts. The huge deficits in 1979 and 1980 were a part of the solutions to some historic problems and

because of the need to repay old debts. But for most part, the financial deficits are due to the overheated economy, the bloating demands, and the lack of coordination in the reform.

What is of particular concern is that the deficit figures made public in this country are in fact understated. The real deficit figures are hidden and understated for two reasons: One, local financial surpluses are used to offset some of the financial deficits; two, debt-income (foreign and domestic) is not included in the deficits. If we take these two factors into consideration, China's cumulative financial deficits are already in excess of 100 billion yuan.

The two important ratios are too low; the state's financial strength is dispersed; its financial macroeconomic regulatory capability is continuously being weakened

First, state revenue as a percentage of the national income has plummeted, from 31.8 percent in 1979 to 19.3 percent in 1988. Second, the increase in the central government's revenues has lagged behind that of the local governments', and as a result, the central government's revenues as a percentage of state revenues have fallen steadily, from 66.1 percent in 1980 to less than 50 percent in 1988. In addition, in the wake of the widespread application of the financial contract responsibility system, the central government's financial income will continue to decline steadily.

The excess debt burden jeopardizes the state's budget balance

In the wake of the development of the commodity economy, China is beginning to pay more attention to the regulatory effects of debts on her economic development and is also relying more on debt-income to remedy her financial deficits. No doubt, debts play an important role in promoting this country's economic construction and development. But because we have not improved the management of the debts, especially in putting the loans to better use, they have become a problem. Forecast indicates that in the 1990's, the central government's principal and interest payments on domestic and foreign debts will reach 40-60 billion yuan each year. This will seriously jeopardize the state's effort to balance the budget.

The growing financial subsidy burden

Financial subsidies in this country have been increasing every year for the past several years. The scope as well as the amount of subsidies have increased steadily. The defects and dangers of subsidies are increasingly evident. Subsidies have become a heavy financial burden for the state. In the last 10 years, financial subsidies have grown to nearly 500 billion yuan, and all indications are that they will continue to grow at an accelerated rate. They are one of the main factors causing the state's financial difficulties and deficits.

The highly disparate rates of increase between the state's budgeted funds and extra-budgetary funds

In the last 10 years, the state's budgeted revenues have increased very slowly while extra-budgetary revenues have soared. In 1979, extra-budgetary funds totalled only 45.285 billion yuan, which was 42.4 percent of the budgeted income; by 1988, they have soared to 227 billion yuan, 92.4 percent of the budgeted income, and the increase is still gathering momentum. At this rate, extra-budgetary funds will greatly exceed budgeted funds.

The central government's expenditures are surging; the pressure is high, and there is little room for cutting back

While the increase in the central government's financial income has been modest, the number of special revenue and expenditure items in its budget has been growing. The proportion of expenditures which are fixed is growing, leaving little room for maneuvering to cut spending. For example, principal and interest payments on debts, national defense, and payroll are fixed outlays that cannot be cut. In addition, agricultural subsidies and cultural, educational, and public health expenditures not only cannot be reduced but will increase steadily.

The Causes of the Present Financial Difficulties

The financial situation is the comprehensive reflection of the national economic standard. The grim financial situation we are facing reflects an element of instability in China's national economy which cannot be ignored. On the whole, there are four major causes to the nation's financial difficulties: One, our economic development has always been guided by the ideology of instant success. Two, our economic reform tends to emphasize individual programs, and there is a lack of overall coordination. Three, during reform and development, the state gave up too much power and too much profit too soon, and we triggered the profit mechanism to stimulate enterprises without building an effective constraint mechanism first. Four, the reform of the financial system was neither perfect nor thorough. Specifically, the problems are as follows:

1. Because our economic development is guided by the ideology of instant success, the economy is marked by the "three excesses": excess increase in construction, excess allocation of the national income, and excess issuance of the currency. In addition, we have an expansionary financial policy in the public sector. These have led to inflation and have caused the state's financial problems on the one hand and are responsible for enterprises' low economic efficiency on the other hand. The main features of the present expansionary financial policy are: one, tax cuts and the yielding of profits. Cutting too much taxes and yielding too much profits to the localities and enterprises too soon have dissipated the state's financial strength and weakened its financial regulatory and control capability on the one hand and have created confusion in the allocation relationship

between the state and enterprises on the other hand. As a result, what the government gives out with one hand is retrieved by the government with the other hand, and the allocation relationship is extremely unstable and haphazard. Two, the policy of pre-tax debt repayment. This in essence is an income allocation policy of spending the government's money in advance. At the beginning, pre-tax debt repayment cost the government only a little over a billion yuan a year; by 1988 it has jumped to almost 12 billion yuan, and the increase is still gathering momentum. Three, financial deficits. This is most typical of any expansionary financial policy. The budget deficits in recent years may be unavoidable for many reasons, but each year they continue to stimulate demand on the one hand and add to the financial difficulties on the other hand. Four, the expansionary debt policy. As a necessary economic lever, debts play a positive role in coordinating economic development and in making remedial financial deficits. But there must be a limit to the scope of indebtedness. Expanding the scope beyond the limit will create economic problems. This point is amply proved in practice in China's economy.

2. The central government's giving up too much power, cutting too much tax, and yielding too much profit too soon have created a very biased national income allocation policy, and as a result, the adjustment of the income allocation policy is thrown into passivity. Furthermore, in practice, we have emphasized the three guarantees: One, we guarantee the revitalization of enterprises, and consequently we neglect and weaken the state's macro-economic control; two, we guarantee agricultural growth by practicing a low-price, low-tax policy with respect to agricultural capital goods and subsidize product prices—these no doubt play an important role in promoting agricultural production, but they also greatly increase the government's financial burden; three, we guarantee price stability and the workers' livelihood, and as a result the state is burdened with more and more price subsidies. These policies not only prevent the state from collecting its due share of revenues but also increase its financial expenditures, inevitably causing serious financial difficulties.

3. An improper allocation system: This is particularly evident in the two contract responsibility systems. First, the local government's financial contract responsibility system stipulates a fixed contract base and a fixed incremental rate (the percentage,) which means the central government only gets a constant share of the incremental income, and this does not generate a steady stream of income for the central government. Second, the enterprise contract responsibility system stipulates a fixed contract base and a fixed incremental rate (the percentage) of the profit to be handed over to the state; so, enterprises' non-operating income, such as the extra income generated by higher prices, is not collectible by the state. In addition, we still have a serious problem with enterprises taking responsibility for their profits but not their losses. They not only prevent the state from collecting its share of revenues but often force it to spend

more money after losing money on those enterprises, jeopardizing the steady increase in the state's financial revenues.

4. Public finance itself is an imperfect system. First, public finance itself is a short-term measure; there is no long-term program nor development strategy. In order to balance the budget in the current year, we often do the expedient thing and adopt makeshift devices. We have not paid enough attention to long-term planning to develop more revenue-generating sources. Second, during economic reform, we have been passive and have not taken any active measures. As a result, we have spent a lot of money but still do not have a sound operating mechanism. Finally, financial laws and regulations are lacking and financial supervision is inadequate, and consequently, tax-fraud and tax-evasion are prevalent, and the situation is very serious.

5. Noneconomic factors, such as the commercial-minded authority, prevent the economy from working in an orderly, systematic, and normal fashion. There is chaos in the economy, and as a result, the state is unable to collect its due share of revenues.

How To Extricate Ourselves From the Financial Predicament

Financial problems are the comprehensive reflection of the nation's economic problems. To extricate ourselves from the financial predicament, we must take the national economy into consideration. Today, if we want to solve all of our financial problems, we must diligently implement the general policy of "improvement, rectification, and reform," promulgated at the 3d Plenary Session of the 13th Party Central Committee. We must control tightly the increase in society's total demand, and on that basis, we must also adopt effective measures to increase society's effective supply and gradually narrow the supply-demand gap, alleviate the shortages, and achieve basic supply-demand equilibrium. At the same time, we must adhere to the spirit of the State Council's recent "Circular on Some Decisions Pertaining to the Existing Industrial Policy" and adjust and improve the industrial structure, establish an orderly national economic structure which promotes dynamic equilibrium and smooth development, and develop more financial resources to ensure steady increase in government revenues.

There is still a lot of arduous and meticulous work to be done in the public sector:

One, in theory and in policy, we must abandon the "deficit-is-beneficial theory." Presently, we should implement the tight financial policy diligently and take effective steps to rectify the expansionary financial policy and curb its spread. At the same time, the banks must complement this step with a tight monetary policy, so that finance and banking are coordinated to form a tight macroeconomic structure to stop the free flow of

funds and money so as to effectively control the volume of flow of society's funds as well as the circulation and use of money.

Two, we need to adjust the allocation policy and the allocation structure so that the state's financial revenue will increase as fast as, or even faster than, the national income. For many years, the state has given up too much power, cut too much taxes, and have yielded too much profits too soon, and as a result, the state's financial strength is dissipated. To solve the financial problems, it is essential that we make some changes in the allocation structure and the allocation policy. We cannot enter into more contracts to cut taxes and yield profits, nor can we continue to cut taxes and give up profits as the way to entice enterprises. Thus: (1) We must improve the local government financial contract responsibility system and adjust the contract base and the incremental rate properly to ensure steady increase in the central government's income. Meanwhile, we must also improve the enterprise contract responsibility system and smooth out the allocation relationship between the state and enterprises. The key lies in setting the proper contract base and incremental percentage. Enterprises must be responsible not only for the profits but also the losses, so that they must look to themselves and improve their own economic efficiency. As for the non-operating income, such as the extra income generated by higher prices, we should impose a "price adjustment tax" and allocate most of that income to the state. (2) By lowering enterprise income tax reasonably and enforce the "separation of profits from taxes," we can change "pre-tax debt repayment" to "after-tax debt repayment." By so doing, the government need not lose revenue and enterprises can pay off their debts with their after-tax profits. (3) We should sort out and consolidate the preferential tax policies, curb the practice of arbitrary tax reduction and exemption, and enforce the tax laws.

Three, we must strengthen the administration of enterprise operations and strive to improve economic efficiency and develop more financial resources to increase the government's revenue. To this end, first, we must lower consumption, reduce expenditure, and refrain from wasting resources; second, we must improve the quality of our products and produce more marketable goods; third, we must set up better enterprise financial and economic accounting systems and implement a stricter financial system and prevent enterprises from raising their costs at will.

Four, we should legislate the tax system and do a better job with tax collection. First, we should publicize the tax laws and improve the tax collection and management system. Second, we should sort out and consolidate and tighten the rules on tax reduction and exemption. Furthermore, we must take effective steps to curb and crack down on tax fraud and tax evasion. Finally, we must strengthen tax collection and management, train better tax collectors, deliver all tax revenues to the Treasury in a timely fashion, and urge enterprises and individuals who owe taxes to pay up promptly.

Five, we must handle the relationship between budgeted and extra-budgetary funds properly, guide the collection of the budgeted income adjustment tax, and make sure that all taxes are collected in full. The collection of budgeted income adjustment tax is an important measure toward strengthening the state's macroeconomic control and creating the proper environment for reform and construction. This is a new, and fairly difficult, task for us. First, we must truly understand the purpose of this tax and separate the budgeted funds and extra-budgetary funds according to the rules. Then, we must publicize and explain the measure to the people and clarify the purpose of this levy. Lastly, we must deliver the full amount of tax collected to the higher authorities as stipulated in the policy.

Six, we should give more weight to the treasury system. Meanwhile, we should also adjust the banks' credit loan composition, curb the banks' tendency to retain and usurp the tax money, and make sure that all taxes are delivered to the treasury promptly.

INDUSTRY

Airplane Production Reaches 13,000

OW1709134989 Beijing XINHUA in English
1159 GMT 17 Sep 89

[Text] Beijing, September 17 (XINHUA)—China-made "Yun-7" airplanes have so far taken 20 percent of the domestic passenger flights in China. But five years ago, all passenger airplanes were imported.

This is part of the progress China's young aviation industry has achieved.

Statistics show that China had manufactured more than 13,000 airplanes for different purposes by August of this year. They include 25 types and 55 models such as fighter, bomber, attack, pilotless and transport planes, helicopter and trainer.

Since it adopted the reform and open policy ten years ago, China's production of planes for civil aviation has reached 310.

Now, the 52 "Yun-7" passenger planes have flown on 70 domestic air routes, and 30 "Yun-8" planes, which have a loading capacity of 20 tons each, have been manufactured and put into use. In addition, a joint venture between China and the United States has produced nine 150-seat "MD-82" passenger planes.

China has also exported several hundred civil and military airplanes and some 1,000 airplane engines to a dozen countries and regions.

Article Reports on Henan's Industry, Reform

HA0309130889 Zhengzhou HENAN RIBAO in Chinese
12 Aug 89 p 2

[Article by Vice Governor Liu Yuan 0491 3293: "Report on Industrial and Communication Construction and Deepening Enterprise Reform in Henan in the First Half of This Year"]

[Text] Since the beginning of this year, we have continued to implement the policy of rectification and improvement and the policy of deepening reform. We have resolutely executed a series of orders by the CPC Central Committee and State Council to stop turmoil and quell the counterrevolutionary rebellion in Beijing. We have also promoted a smooth work progress for the 25 major management-by-objective projects of industrial and transportation construction in our province: the work progress has met the standard or basically met the standard, and has laid a foundation for accomplishing the tasks of realizing the goals in the whole year.

In the first half of this year, above township level in the whole province, industrial growth was steady and persistent, and total industrial output value hit 23.43 billion yuan, an increase of 11 percent over the same period last year, surpassing the goal of 7 percent increase in total industrial output value above township level and the goal of 10 percent increase in total industrial output value in the whole province; it is also slightly higher than the 10.8 percent growth in the whole country. Therefore, an increase of 13.2 percent in financial income is guaranteed. The work in deepening reform, strengthening enterprise management, stepping up land and mineral resource management, and organizing construction of key capital construction projects had comparatively good progress. I will report on several key jobs.

1. We have forcefully stopped the slide in industrial production. In our province, a slide in industrial production began in November last year when there was a shortage of power. In January this year, the rate of production obviously decreased; there was only a 3.1 percent increase in output compared to the same period last year. The main reason was shortage of energy, means of communication, raw materials, and capital. Due to the very big shortfall of coal planned to be supplied by the state by centralized distribution, generators generating about 1 million kilowatts stopped working or could not work normally because of shortage of coal, whereas local coal production also experienced a big slide. The provincial party committee and government attached great importance to this situation, and convened many meetings of groups responsible for financial and economic matters under the provincial party committee, as well as many emergency meetings on management, to mobilize enterprises in the province to overcome the difficulty. We have upheld the principle of "using coal to safeguard power, and using power to safeguard coal, so coal and power safeguard each other, while the railway

extends support," and let the leading comrades responsible for industrial management in the provincial and city governments and the persons of economic commission to personally grasp work in production, distribution, supply, management, and comprehensive coordination of coal, power, and means of communication, as well as mobilized the great masses of staff in the energy and transport enterprises to contribute more to socialist economic construction. We have also adopted certain economic means to encourage enterprises to look into their potentials and increase output. In January, for the sake of supporting coal production, the province increased power supply to coal enterprises even when faced with a shortage of power, it was a 26 percent increase compared to the same period last year. Thus coal production in the province only decreased by 8 percent, and the target of using coal mainly for generating power was guaranteed. Meanwhile, the railway department earnestly supported coal transportation; the result was that power plants maintained a continuous increase in coal storage, and that power output rebounded month after month. In February, the province was able to use a daily average of 67.18 million kilowatts of power compared to 64.79 kilowatts used in January, and industrial production flourished again. In March, the situation further improved, and in the first quarter industrial growth rate rebounded to 8.9 percent, thus changing the trend of a slide.

2. We have taken a clear-cut stand in stopping the turmoil, and in stabilizing the situation and production. The April unrest in Beijing has spread to Henan quickly, and the great masses of cadre and staff have shown great concern for the rumors in the society, the wrong orientation of mass media, and the discussions on the streets. According to the instructions of the central authorities and the provincial party committee, various cities and prefectures, and departments responsible for industry, transport and construction have organized cadres and the masses to seriously study the "26 April editorial" of RENMIN RIBAO, and taught them to stop turmoil, raise understanding, stabilize thought, and uphold production. In mid-May, unrest broke out in Zhengzhou, Kaifeng, and Luoyang, people clashed with the offices of the provincial government, organized large illegal demonstrations and processions, shouted reactionary slogans, distributed reactionary leaflets, delivered reactionary speeches, and spread political rumors, to instigate strikes, destroy industrial production and transportation, and disrupt Henan in coordination with the rebellion in Beijing, for the evil purpose of subverting the party and state authority. In the face of the grim situation, the provincial government convened an emergency meeting to safeguard production, and sent urgent notices to various cities and prefectures demanding that the great masses of cadres and staff step up discipline, safeguard their posts, uphold production, perform their own tasks, and fulfill their own duties. No one should leave his post, and security work must be stepped up to prevent the bad people from causing destruction; a normal order of supply for people's daily life must also

be ensured. In order to stabilize the provincial capital, so as to stabilize the whole province, we have participated in the meetings of the leading cadres of Zhengzhou's propaganda departments, bureaus, and commissions, and asked everyone to take a resolute stand in opposing turmoil, and to grasp production forcefully. We also went to train stations and enterprises to look at the situation, mobilized and supported cadres to instruct their staff to remain in their posts and not to take part in demonstrations and processions. After comrade Li Peng's speech at the meeting of party, government, and military cadres in the capital was broadcasted, all the workers in the province learned the speech, grasped production, and conformed their minds to the spirit of the speech. During the provincial telephone meeting, we appealed to the great masses of workers in their respective posts to make contributions to stopping turmoil by practical actions. We have further emphasized the importance of discipline, and forbade using public funds and facilities to raise money and support demonstrations and processions, should someone use such money for such purpose, he must refund it. Also, we forbid anyone to leave his post at will to participate in illegal demonstrations and processions, or he will be handled as violating labor discipline. After Beijing has quelled the counterrevolutionary rebellion, some turmoil elements wildly struck back, and carried out various kinds of counterrevolutionary propaganda to instigate strikes; they also barred the workers on their way to work. Various enterprises organized workers to learn the notices and instructions of the CPC Central Committee, State Council, Beijing City Government, and commanding post of the martial law enforcement force, watched television broadcasts and listened to radio, and further improved understanding and unified thought. We have participated in the meetings of leading cadres of enterprises in Zhengzhou, and went to the key enterprises to mobilize and support cadres to explicitly instruct workers to resist the activities of establishing ties for launching strikes, patiently carried out ideological work, and taught them not to take part in illegal processions. Because the great masses of leading cadres of enterprises took a clearcut stand in stopping turmoil, dared to tackle problems, upheld ideological and political work for workers, conformed to the CPC Central Committee in thought and politics, gave aspiration to workers, and stabilized the situation, they indeed enhanced a steady development of industrial production and transportation.

3. We have adjusted product structure, and increased effective supply. On the industrial front, rectification and improvement means not only controlling excessive speed, but more importantly, adjusting product structure, and increasing effective supply. This year, the main goals of adjustment of product structure in our province are: Grasp production of the 67 varieties of the five kinds of key products defined by the province, practice biased policy for the relevant 300 key enterprises by giving them priority in the arrangement of technological

transformation and in the provision of circulating capital, power, and raw materials, to ensure increases of these products. Early this year, we held a meeting on key enterprises, formulated preferential policies, and demanded that enterprises, under the state's preferential policies, should pay attention to exploring internal potentials, and strive to increase output through "double increase, double economy," as well as to improve economic return. In order to carry out this task practically, the provincial Planning Commission and Economic Commission has established a system of cards for key enterprises, enabling a quick look at the production of the key enterprises. In late June, five inspection teams were sent to various localities to carry out inspections. The inspections indicated that the preferential policies formulated by the province had basically been carried out, however, in some circumstances realization of some policies were not feasible due to the objective factors. The cities with more key enterprises, such as Anyang, Xinxiang, and Jiaozuo, not only allocated all the preferential materials, funds, and electricity handed down by the province to the key enterprises, but also gave some of their own materials to support productions in the key provincial enterprises, thus ensuring a steady development of production of key enterprises, and increasing production of daily necessities for the people, and of the raw materials and products supporting agricultural production. In the first half of this year, production of these key products basically met the planned target for the year.

4. We have resolutely deepened enterprise reform. Early this year, we held a provincial meeting on television broadcasts, and promoted the reform experiences of Anyang Gear Wheel Factory and Zhoukou Gourmet Powder Factory, as well as mobilized people to further deepen enterprise reform. Immediately after Beijing quelled the counterrevolutionary rebellion on 12 June, we convened a provincial meeting on work in deepening enterprise reform, and made arrangements to deepen the reform. Through mobilization and painstaking work, we have made leaders at various levels in the province and workers in the enterprises understand that rectification, improvement, and reform are supplementary to each other, and strengthened their faith in reform, enabling a steady development of work in deepening enterprise reform in our province. Up to late June, 1978, budgeted industrial enterprises in the province have practiced contracted management; the figure represented 93 percent of the total number of budgeted industrial enterprises in the province, and was 5.5 percent higher than the 87.5 percent for last year. Also, 72 percent of the collective enterprises, and 72 percent of the budgeted construction and installation enterprises also have practiced contracted management. The budgeted enterprises being contracted off by competitive bidding occupied 19.3 percent of the contracted enterprises. There are 677 enterprises practicing "full-load work method" and "internal bank"—32 percent of all the enterprises. There are 106 enterprises which have undergone various forms of integration for optimization, and 45 big and medium

enterprises are chosen according to the demands of goals to be test cases running business free from control of the province. It is expected that at the end of this year the goals of reform can be realized.

5. We have stepped up management of enterprises and promoted technology. Since this year, we have seriously implemented the state's, "Outlines for Modernization of Enterprise Management (Draft)," vigorously promoted modernization of enterprise management, and tried hard to change the situation of "backward technology but more backward management." The provincial Planning Commission and Economic Commission have drafted and handed down the documents such as "Ideas and Demands on Strengthening Work in Modernization of Enterprise Management" and "Notices on Doing Well Several Tasks of Modernization of Enterprise Management," providing various departments and enterprises with references in doing well the tasks of modernization of enterprise management. We have also studied and inspected 31 projects with modernized management and with yearly economic returns of over 500,000 yuan in 22 enterprises, and treated them as the first group of key projects for modernization of enterprise management in the province. Through these tasks, enterprise management has been strengthened. For example, the provincial Department of Machinery and Electronics launched the activities of "year of projects of value" this year, and acquired very good results. Many enterprises combined the activities of strengthening enterprise management with the movement of "double increase and double economy," offset the factors of price increase, and improved economic returns. For example, Anyang Electronics Factory saved 600,000 yuan just by practicing a strict system of distributing and receiving materials. Xinxiang City Printing and Dyeing Mill vigorously launched activities of repairing old equipment and utilizing abandoned equipment, and increased a profit of 600,000 yuan just by repairing a roller in the first half of this year. Anyang Gear Wheel Factory, under a condition of big price increases for raw materials in the first half of this year, experienced a 4.7 percent decrease in costs of comparable products.

We will promote advanced technologies for the enterprises. This year, new products planned for development in the province reached 3,560 items, and 30 kinds of new technology will be promoted. In May, we held a provincial meeting on work to promote technology; concrete arrangements were made to upgrade technologies for enterprises, and some research achievements were transferred to production. At present, we are studying and drafting the "Some Temporary Regulations on Promoting Technological Advancement for Industrial Enterprises in Henan," to promote the founding of a mechanism for technological advancement within the enterprises in our province.

6. We have seriously organized constructions of key capital construction projects. Early this year, after the provincial government demanded that construction of the 21 key projects defined by the state and the province

must be guaranteed according to a reasonable work schedule, the state again defined a group of key state construction projects to be built in our province. At present, in our province, there are 34 key construction projects defined by the state and the province. In order to grasp well these projects, and to guarantee that construction of these projects will be completed according to the schedule, in the first half of the year we held two meetings on management of the projects which will be commissioned this year, and proposed ideas and made arrangements to solve 42 problems concerning capital and materials arising from the construction process, and assigned tasks to units and personnel. In order to keep abreast of the progress of construction, we have kept files for the key projects in the province, and went to the construction sites to inspect the progress of construction, giving a helping hand to solving the difficulties. Judging from the present situation, construction of the 34 key projects has been smooth, and the planned progress of construction can be accomplished. Among the 34 key projects, the first-class state route 107 Zhengzhou to Xinxing highway, the bridge in Huanghe highway in Kaifeng, and Zhongyuan Fertilizer Factory can be commissioned on 1 October, much earlier than the scheduled time. Judging from its present progress, the project of glass cases at Anyang Color Picture Tubes Factory can begin output 1 month earlier than it was originally scheduled.

7. We have seriously grasped urban construction. In order to improve and strengthen management of construction work, we specifically held a provincial meeting on construction work in March, and issued the "Notice on Seriously Doing Well Construction Work in the Province," as well as promoted system reform for construction work. Regarding urban planning, we have formulated urban and town plans for Jiaozuo City and six other counties. Urban planning for different districts have been carried out in four cities, and the majority of overall plans for historic cities have been studied, some even finished reports. Environmental improvement by means of capital construction of water supply, sewage system, roads, power and communication is being carried out. At present, 30 percent of the big and medium cities in the province have adopted comprehensive development. Regarding environmental protection, we have mainly grasped the "three simultaneous" work of the construction projects, for the 19 big and medium projects which started initial work this year, all have undergone assessments of impact on environment, and all the reports on environmental impacts have been examined and approved. Other than controlling new pollution, we have also disposed of the "three wastes" and arranged for a comprehensive use of funds, and speeded up disposal of old pollution.

In conclusion, of the 25 major management-by-objectives projects of industrial and transport construction this year, 16 projects had fulfilled or overfulfilled the planned target of progress, eight projects had basically fulfilled the planned progress, and one project

did not fulfill the planned progress; that is, the accelerated turnover rate of circulating funds and the profit rate on funds for the budgeted industrial enterprises did not meet the requirement of progress. There have been some problems in the work carried out in the first half of the year. First, 332 budgeted industrial enterprises in the province suffered losses, an increase of 30.7 percent over the same period last year, and the losses amounted to 79.35 million yuan, an increase of 71.83 percent compared to the same period last year. The main reasons were that no serious effort had been put into the economical use of energy and in reducing consumption; enterprises had not explored their internal potentials, and had no good means to offset price increases for raw materials, with the result that costs also increased. Second, in the course of stopping the slide in production output, people emphasized quantity and speed but ignored quality, with the result that quality of products deteriorated. During the first quarter of the year, the State Bureau of Technology Supervision randomly inspected 46 kinds of industrial products in our province, and only 59.6 percent passed the requirement, an increase of 3.8 percent over the same period last year, but also a decrease of 18.4 percent compared to the fourth quarter last year. Third, safety in production in the whole province in the first half of year had generally improved, and the number of casualties decreased by 10.7 percent compared to the same period last year, while serious cases each involving deaths of over three persons decreased by 8.7 percent compared to the same period last year. But economic losses increased by 64.6 percent over the same period last year, a fire at Zhengzhou Tobacco Factory could cost as much as 7 million yuan. At present, the conflict between supply and demand of funds and raw materials becomes more profound, and in the second half of the year we will have more difficulties in organizing industrial production. We must truly adhere to the spirit of the 4th Plenum of the 13th CPC Central Committee, further carry out the policy of rectification and improvement, seriously grasp the movement of "double increase, double economy," adjust product structure, improve quality of products and economic returns, practically solve the existing problems, strive to do a better job, and work hard to accomplish the goals set for the whole year.

Jilin Reports 40 Years' Industrial Development

SK2009103489 Changchun Jilin Provincial Service in Mandarin 1030 GMT 19 Sep 89

[Summary] Our province's industry has developed fairly rapidly over the past 40 years, since the founding of the PRC. In 1949, our province's industrial output value was merely 380 million yuan, but it reached 45.42 billion yuan in 1988, an increase of 105 times over 1949, in terms of comparable prices. In 1988, the original value of the fixed assets of the industrial enterprises of our province exceeded 36 billion yuan, equivalent to more than 50 times the fixed assets of the industrial enterprises accumulated in the nearly 100 years before the founding of the PRC. The number of the industrial

enterprises in our province increased from 2,561 at the time when the PRC was founded, to 13,791 in 1988, of which 321 were large and medium-sized.

Following the continuous strengthening of our province's industrial foundation, the output of some important industrial products has also doubled and redoubled. The output of passenger trains, ferroalloy, carbon products, synthetic alcohol, aniline and synthetic rubber ranked first in the country; that of motor vehicles and timers, second; that of calcium carbide, fourth; that of hand-guided and small tractors, fifth; that of crude oil, eighth, and that of machine-made paper and paperboards tenth.

Industrial Belt Taking Shape in Yangtze River Delta

OH 2409215489 Beijing XINHUA in English
1240 GMT 23 Sep 89

[Text] Nanjing, September 23 (XINHUA)—A hundred-kilometre-long industrial belt thick with factories and enterprises is taking shape along the railway from Changzhou to Suzhou in Yangtze River Delta, east China's Jiangsu Province.

Precisely, this industrial zone is located between Wujin County of Changzhou in the west and Kunshan County of Suzhou in the east, Yangtze River in the north and Taihu Lake in the south.

More than 35,000 enterprises of various scales line up along the railways, highways and the grand canal, leading by the three cities of Changzhou, Suzhou and Wuxi.

They produce 90 billion yuan (about \$24.3 billion) in output value per annum and contribute five billion yuan (about \$1.35 billion) to the state treasury every year.

They export thousands of kinds of mechanical, electrical and chemical products and other consumer goods with high qualities to overseas and domestic markets.

According to 1988's statistics, the per capita gnp here amounted to \$800, reaching the national target which was scheduled to be fulfilled at the end of this century.

After Shanghai, Tianjin and Beijing, Suzhou ranks the fourth in the industrial output value in the country, and Wuxi, the fifth.

The belt has only 19 percent of the whole province's population and 16 percent of its land, yet generates 44 percent of the province's total output value and financial income.

Since the energy and mineral resources are short here, 80 percent of raw materials needed in the industry are imported from other places. So the light processing industry and the middle- and small-size enterprises are specially developed.

In Suzhou, almost 500 million yuan (about \$135 million) had been put into silk industry in the past 10 years and

294 technological improvement projects accomplished. More than 6,000 new products had been marketed with an average rate of two kinds every day. Suzhou has become a leading silk producer and exporter in China.

In Wuxi, old cotton and woolen mills have introduced foreign advanced technology and more than 100 new products have come out.

Some new industries, including biological engineering, laser, electronics and new material industry are also developing rapidly here.

Take the electronics industry for example, large-scale integrated circuit and tape recorder of Wuxi, the electric metre and tv set of Suzhou, the computer and electrical machinery of Changzhou, all take the lead in the country.

In the delta's state-owned enterprises, scientists and technicians account for 11.3 percent of the whole staff and workers, exceeding the country's average.

Another feature of the zone is that the urban industry and the rural industry develop coordinatively. The gap between town and country is being gradually narrowed with the urban and rural economy merging into an integral whole.

The rural industry has come to the fore since the country's open policy was implemented several years ago. It occupies 55.7 percent of the three cities' gross industrial output value.

More than 300 small towns with complete infrastructural facilities and convenient traffic are towering in the grand plain. Around Suzhou, Wuxi and Changzhou, they form a large industrial zone with the rural and urban economy developing harmoniously.

In the past 10 years, the three cities adjusted their structure of production and distribution of industries and focus their efforts on export-oriented economy.

The zone has a long history of foreign trade. China's open policy has also given it an opportunity to take part in the international economy. And now, "get into the international market" has become a slogan of many factory directors and managers.

In 1988, the three cities' purchasing volume for export amounted to 6.63 billion yuan (about \$1.8 billion), tripling that of 1984.

More than 3,000 small enterprises, involving 40 percent of the three cities' output value, united voluntarily and formed about 140 groups so as to enter the world market.

Some groups are now striding from transprovincial cooperations to transnational cooperations. Up to now, 10 enterprises have set up subordinate factories and farms in the United States, Malaysia, Thailand and Australia.

Tangshan Becomes Major Industrial Center

OW1109065289 Beijing XINHUA in English
0559 GMT 11 Sep 89

[Text] Shijiazhuang, September 11 (XINHUA)—Tangshan, a city reduced to ruins by a 7.8 magnitude earthquake in 1976, has become one of the major energy and raw material production centers in North China.

The city's total industrial output value over the past decade came to 8.75 billion yuan, said Mayor Chen Liyou.

With complete sets of equipment imported from Japan and Federal Germany, the Jidong Cement Factory, the largest of its kind in the country, produces 1.29 million tons of cement annually. The factory earned 400 million yuan in the first four years, equivalent to the entire investment in the factory.

The Tangshan Power Plant, the biggest thermal power plant in China, has an installed capacity of 1.55 million kilowatts.

The Kailuan Mining Administration, a leading coal base in China, provides China's major steel works with 19 million tons of coal a year. It also exports coal to Japan and the Democratic People's Republic of Korea.

The city also boasts China's largest pottery, cement machinery and rubber conveyor belt machinery plants.

Its civil engineering development over the past 10 years surpassed that of the previous 100 years, Chen said. The mayor attributed the achievements to the open policy and economic reform.

Tangshan has well equipped industrial enterprises and rich natural resources such as iron ore, limestone and coal. Chen welcomes any form of investment in the city by overseas entrepreneurs.

CONSTRUCTION

Per Capita Living Space 'Increases'

OW2808100689 Beijing XINHUA in English
0730 GMT 28 Aug 89

[Text] Beijing, August 28 (XINHUA)—The per capita living space of Beijing's 5 million urban residents has reached 7.17 square meters, according to a report by the Beijing Economic Information Center.

Two years ago, the per capita living space in Beijing's urban area was 6.46 square meters and before 1949 it was 4.75 square meters.

Though the municipal government has made great efforts to improve residential housing in the past 40 years, the increase is not very apparent due to the rapid population growth.

In 1949, the urban population of Beijing was only 1.65 million. At that time most of Beijing's residents lived in compounds with central courtyards (siheyuan) and one-story houses.

The total residential construction space in old city areas is only 13 million square meters, but by the end of this year, the total housing space in Beijing's urban area will be about 80 million square meters, 6 times that of 1949.

A number of Beijing residents still have serious housing problems. An old lady in the Xicheng District shares a room of more than 10 square meters with 4 family members.

To solve problems like these, Xicheng, Fengtai and some other districts have set up housing cooperatives which will use government and privately collected funds for residential construction. At the same time, the municipal government is continuing to build more apartments.

Shanghai Announces 'Tough' New Building Controls

HK0509021389 Hong Kong SOUTH CHINA
MORNING POST (BUSINESS POST) in English
5 Sep 89 p 3

[By Geoffrey Crothall]

[Text] Shanghai has announced tough new measures to further control capital construction projects in the city.

Investment in capital construction has continued to rise this year despite repeated calls from the central government to reduce spending.

The municipal government has issued two sets of regulations governing building work in progress and the approval of new projects designed to bring capital construction into line with the city's projections and appease the central economic planners in Beijing.

The first set of regulations stipulates that building projects will be halted if they:

- Have insufficient funds.
- Were approved last year but so far have not been contracted out.
- Have failed to pay construction fees for more than two months or have used up all their allocated funds.

New projects will have to obtain approval from the municipal planning commission and the municipal construction committee before building work can start.

If construction goes ahead before approval is granted, the banks will be instructed to suspend all loans for the project.

The second set of regulations, which came into effect at the end of July, state that no new projects, including foreign joint ventures, will be approved until they

- Can clearly show they have obtained sufficient funds.
- Have been placed on the annual capital construction list drawn up by the municipal planning commission.
- Have received the necessary construction licences.

Projects with an investment of more than one million yuan (about HK\$2.1 million) or covering an area of more than 3,000 square meters must apply to the municipal construction project examination and approval body for approval once the other requirements have been met.

Projects going ahead with building work without approval will be halted and deprived of additional finance. Construction companies involved in illegal building will be fined and their business licences revoked.

Over the past few years many private contractors and workers from the countryside have moved into Shanghai to cash in on the building boom.

Now the government has announced that private firms working illegally will be driven out of town and unemployed labourers encouraged to return to their home towns.

FOREIGN TRADE, INVESTMENT

Problems in Sino-Foreign Joint Ventures

40060663a Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese
No 23, 26 Jun 89 p 8

[Article by Lo Keng 3012 1649: "Many and Few—Problems in Sino-Foreign Joint Ventures Examined"]

[Text] In July 1979 China promulgated the "Law on Sino-Foreign Joint Ventures," and in the 10 years since then China's joint ventures (including cooperative ventures) have gone from nothing to something and have developed in both quantity and quality. However, looking at the joint ventures that have started up, we see that many problems still exist and that some of them are serious. To a certain degree these problems hamper the development of joint ventures. These problems are summed up below in several "manys" and "fews":

1. There Are Many Joint Equities, But Few Joint Ventures.

Joint equity but not joint venture—this is one of the widely existing problems in joint ventures at the present time. The main manifestations of this situation are: In many joint ventures, the administration and the management of production, supply, and marketing are often disjointed. Herein there are two kinds of situations. One is that the administrative activities of the enterprise's production, supply, and marketing are the responsibility of the Chinese side, and the foreign businessmen, without exception, do not get involved in them. This

kind of enterprise often uses the traditional Chinese ways of managing enterprises; their production efficiency is low and their economic returns are usually not high. The other situation is that in which the Chinese side is responsible for the management of production, and the foreign businessman takes on all of the supply and marketing. In this way of doing business there are many drawbacks: the Chinese joint venturer cannot, through the marketing channels abroad opened up by joint venture, directly get in touch with and take part in the competition on international markets.

2. There Are Many Projects That Are Involved in Duplicate Construction, Nonproductive Construction, and Ordinary Processing Industries, But Few Projects That Are Within the Circle That Urgently Needs Investment and Development.

Some units and departments, when negotiating with foreign businessmen or examining and approving joint contracts, frequently are overanxious for quick results. They blindly lower conditions, carelessly start projects, and cause some duplicate construction. At the same time there are also many nonproductive joint projects. In addition, the greater part of the productive joint projects are projects for some processing industries. On the other hand, joint projects such as those in energy, traffic, communications, and raw materials that China urgently needs to develop, and other joint projects in the country that urgently need investment and development, are relatively few, and there are even fewer technologically high-grade, precision, and advanced projects.

3. There Are Many Ways That Businessmen Put Up Capital for Machinery and Equipment, But Few Ways That They Buy Shares With Ready Cash

This writer's understanding of the situation obtaining in joint ventures is that the great majority of foreign businessmen put up capital in the form of machinery, equipment, and other goods in kind, and that very few of them make investments by truly putting up ready cash. In putting up capital in the form of goods in kind, there are the following problems: first, the Chinese side often has difficulties in mastering advanced equipment and the equipment of many joint ventures taken in from foreign businessmen are secondhand, some of them even being production lines of the fifties and sixties; second, because the Chinese side's grasp of international market quotations is not accurate, it is often difficult for it to fix accurate, fair prices on the invested equipment; and third, after the foreign businessman puts up capital in the form of goods in kind, the joint venture has little ready cash, making it difficult to use circulating funds.

4. Many Simple Technologies Are Introduced From Outside, But Few Advanced Technologies.

Of the more than 10,000 Sino-foreign joint ventures that have been approved, there are not many industries that are truly at the world's advanced level. The greater part of the technologies are some simple technologies of the

processing industry kind, and the differences in technological level of the same industry in the joint ventures in China do not bear close scrutiny. Tracing the reason for this we find that, on the one hand, it is related to China's strategy for developing an export-oriented economy. The purpose of the important principle of large-scale imports and large-scale exports is to display the superiorities of China's abundant labor forces and resources and to take part in the international economic cycle. Also, the majority of foreign businessmen look at China's cheap labor force and ground rent and at its vast market, and do not cooperate with China in technology. In addition, the technological revolution of the present age is constantly advancing, and to keep their technological superiority foreign businessmen are unwilling to lightly export technologies. Next, the import of technologies for joint ventures is restricted by the level of development of China's science and technology and by the level of the Chinese side's personnel. Enterprises in China temporarily find it difficult to digest and absorb many advanced technologies.

5. There Are Many Disputes Between the Two Sides in a Joint Venture, But Few Cases of Smooth Cooperation.

According to this writer's understanding of the situation, in the majority of joint ventures there have occurred disputes, either many or few and to different degrees, between the two sides. Tracing the reason for this, we find that it has four aspects: First, the Chinese side in a joint venture does not do things according to international practice, and the department in charge does not respect the enterprise's right to act on its own initiative. Some departments in charge on the Chinese side administer joint ventures no differently than they administer state-run enterprises. Used to giving administrative orders, some of them even crudely interfere in the enterprise's internal affairs. Second, the general director of a joint enterprise usually comes from the joint equity side, and this is an important cause of disputes. In line with international practice, the general director of a joint-stock enterprise is employed by the enterprise's board of directors, and he is no more than a high-level employee. His duty is to strictly carry out the resolutions of the board of directors. However, the present state of affairs in China's joint ventures is that the great majority of these general directors are produced from the two sides in the joint venture, thus easily causing the general director to tilt toward the enterprise's interests. Third, the practice of "one factory and two systems" also easily causes disputes between the two sides in a joint venture. The so-called "one factory and two systems" means that the joint venture does not "set up a separate kitchen"—make a fresh start—but uses the Chinese side's original factory and equipment in organizing production and business management. The advantages of this practice are that it saves investment, has a short construction period, and gets production started fast. However, because some of the property of the joint venture and of

the Chinese side's original unit is for a time difficult to separate absolutely, coordination is poor and this often engenders disputes.

Fourth, the quality of the Chinese side's managerial personnel is poor. They do not correctly apply contracts as well as other legal measures to protect their own proper interests. When contracts or agreements are signed, they do so carelessly and once the contracts or agreements go into effect many problems arise. For example, to insure the foreign exchange balance, the majority of joint ventures stipulate in their contracts the foreign businessman's obligation to resell, but in the contracts there are often very few provisions on the proportion, time, price, and channel of the resale as well as the restricting obligations of the resale, and even sometimes no provisions at all. Thus there lingers the hidden danger of an enterprise's imbalance in foreign exchange, as well as disputes between the two sides in a joint venture.

The abovementioned problems in Sino-foreign joint ventures to a certain degree restrict the development of these ventures in China. To solve these problems, what is crucial is to perfect the legislative work on joint ventures. China's existing joint venture laws are formulated and promulgated in 1979, nearly 10 years ago. The reform of China's economic system has taken a big stride forward. Many provisions in the existing joint venture laws need to be made more far-reaching, given the reality of the foreign capital that China draws in. Revision and perfection of the joint venture laws are the key to fundamentally solving these problems. Over the years, in order to attract direct investment from foreign businessmen, many departments have promulgated many favored-treatment policies, but these policies have not been fixed in the form of legislation. Today this favored treatment and tomorrow that favored treatment—the changes are too great. Many businessmen are at a loss as to what to do and also feel that there is nothing they can depend upon. Next, we must conscientiously improve the foreign businessman's investment environment. At present, where the most problems exist, and what the foreign businessman reacts to most strongly, is the soft environment for investment. We certainly must replace concepts, enhance service, raise efficiency in doing things, and strive to administer joint ventures according to international practice. At the same time, it is extremely important to run well the existing joint ventures.

Foreign Investments 'Increase' in Xiamen City

*OWD409064089 Beijing XINHUA in English
0545 GMT 4 Sep 89*

[Text] Xiamen, September 4 (XINHUA)—Xiamen City, in east China's Fujian Province, had approved 155 items of foreign investment involving \$610 million by 25 August this year, according to a local official.

From 1980 to 25 August this year, the city had approved 648 contracts involving \$2.15 billion dollars and the foreign investment accounted for \$1.44 billion.

In the period from May to 25 August alone, the city approved 80 items involving \$390 million.

Most contracts are for production and technological enterprises, and enterprises which produce export products.

According to statistics, the city has approved 114 contracts using Taiwan funds, involving \$559 million.

POPULATION

Family Planning Helps Cut Population Growth

OH 2009041889 Beijing XINHUA in English
0235 GMT 20 Sep 89

[Text] Beijing, September 20 (XINHUA)—China's family planning program has helped cut population growth by 200 million as calculated on the 1970 population level, the "PEOPLE'S DAILY" reported today.

As a result, China's birth rate has declined from 5.68 percent in the 1960s to 4.01 percent in the 1970s and again to 2.47 percent in the 1980s, according to Peng Peiyun, minister in charge of the State Family Planning Commission.

The natural population growth had gone down to an average of 1.38 percent between 1973 and 1988 from 2.02 percent between 1949 and 1973, the minister said.

The 200 million population cut meant saving 3,000 billion yuan, she said.

For the present, China's natural population growth is still kept under 1.5 percent, less than that in underdeveloped countries and lower than the average of Asian countries.

However, she said that the future task of population control in China is still tough. She urged greater efforts to accomplish the task.

TRANSPORTATION

Heilongjiang Highway Construction Development

SK2109055989 Harbin Heilongjiang Provincial Service
in Mandarin 1000 GMT 20 Sep 89

[Summary] Over the past 40 years, Heilongjiang province has witnessed great changes in highway construction. So far, highways totalling more than 46,000 km have connected all parts of the province from the East to the West and from the South to the North. A highway network with Harbin as the center has been built in the province. Forty years ago, our province's highway only reached 5,900 km. A 1,000 meter long highway bridge spanning over Songhua Jiang was built and commissioned in 1986. The province's second highway bridge—the Jiamusi-Songhua Jiang highway bridge—will soon be completed. A first-grade highway with a total length of more than 37 km will be completed in Harbin soon.

From 1986 to 1989, the state and our province invested more than 1 billion yuan in highway construction, which was equivalent to the total investment in the previous 36 years. The province has innovated 14 highway sections, built and innovated four large bridges, built local highways totalling more than 3,000 km, and connected 16 townships and more than 1,200 villages with highways. So far, among the province's 17,000 villages, 92 percent of which are accessible to cars.

Heilongjiang Improves Highway System

OH 2109153789 Beijing XINHUA in English
1036 GMT 21 Sep 89

[Text] Harbin, September 21 (XINHUA)—Northeast China's Heilongjiang Province now boasts 46,617 km of highways, 7.8 times more than the length of roads 40 years ago.

In 1949 people living in the province, which was known as "Beidahuang" (wilderness in the north), suffered a lot because of inconvenient communications.

But now the situation is completely different. There are 7,000 bridges across rivers and 5,300 km of first-grade highways.

There are over 360,000 automobiles in the province, which transport 140 million tons of freight and 130 million people annually.

The total annual output value of the communications industry has topped 220 million yuan.

Provincial Highway Construction Progress Reviewed

SK2109052189 Jinan Shandong Provincial Service
in Mandarin 2200 GMT 10 Sep 89

[Summary] Since the founding of new China 40 years ago, our province's highway construction has rapidly developed under the enthusiasm of the provincial government and the masses. At present, the province's highway transport mileage has reached more than 39,000 km, an increase of 12 times over 1949. The number of highway bridges has reached more than 10,000 with a total length of 400,027 million meters, an increase of 34 times and 57 times respectively over 1949. About 98.6 percent of townships and towns and 73.4 villages are linked with highways. At present, a highway network with large and medium-sized cities as the center and 11 state highways as the mainstay, linking with urban and rural arterial and feeder highways, has basically formed.

In order to support highway construction in the impoverished mountainous areas, since 1984 in addition to regular highway maintenance funds, the provincial authorities has allocated more than 140 million yuan to support the building of highways in impoverished towns in Yimeng mountainous areas. At present, 95.7 percent of townships and towns and 73 percent of villages have highway services, of which all villages in Yishui County

are accessible to cars. Over the past 10 years, our province has built more than 5,400 meters of first-and-second-grade roads, ranking first in the whole country. The total mileage of super highways has reached more than 20,000 km.

PRC MEDIA ON FOREIGN ECONOMIES

Lessons From USSR, East Europe on Price Reform

Chengdu *SICHUAN DAXUE XUEBAO (ZHEXUE SHEHUI KEXUE BAN) (JOURNAL OF SICHUAN UNIVERSITY) (SOCIAL SCIENCE EDITION)* in Chinese No 2, 23 Jun 89 pp 28-34

[Article by Jiang Hesheng 5592 0735 0524: "Review of the Price Reforms in the Soviet Union and in Eastern Europe"]

[Text] During the fifties in this century, the Soviet Union and some countries of Eastern Europe raised the curtain for economic structural reforms and started out on the protracted and arduous road of reform. By the early 1980's, economic structural reform had become an historical trend in the contemporary socialist world. The basic impetus that raised the tide of reform and readjustments was the fact that the former system and structure of many socialist countries was, to varying degrees, no more capable of meeting the objective demands posed by the development of the productive forces, and had lost, to varying degrees, their economic vitality and efficacy. This in turn had slowed economic growth and had even caused these countries to end up in the dire straits of "stagflation" (presently the Soviet Union and the countries of Eastern Europe maintain an economic growth rate of mostly 3 to 4 percent, and all are plagued, to varying degrees, by currency inflation). To cope with the new technological revolution and to achieve the necessary depth and breadth of commodity marketing, social commodities, and modernization of their respective productions, the various socialist countries, though differing in levels of economic development, have therefore one after the other instituted reforms and readjustments, striving for greater flexibility, greater adaptability, and greater vitality in their countries' systems. During this tide of reform and readjustments in the socialist countries, price reform and price readjustments are undoubtedly a matter of intense concern and great difficulties. It is for this reason that a review of the positive and negative experiences of these countries in the course of their price reforms are important references for China's current "improvement of the economic environment, rectification of the economic order, and comprehensive deepening of the reform."

1. Success in price reform requires fullest theoretical preparedness, as well as manpower, financial, and material preparedness; any price reform plan must also be fully debated as to its feasibility.

Success in price reform requires, first of all, fullest theoretical preparedness; a fact which has been proven in the practice of price reform in some of the world's socialist countries. For instance, in some of the East European socialist countries, economists and political scientists have provided the theoretical basis and target for the new system in the early years of the 1950's, before price reform, owing to the objective necessity to change the old system with its shortcomings and causes for such. The guiding principles and detailed provisions for their enforcement were subjected to a wide-ranging, full research, and discussion, which achieved a fairly uniform understanding. This was the theoretical prerequisite for price reform, which clearly indicated the direction that price reform was to take. Yugoslavia was the first among the socialist countries to carry out reforms, and it was therefore Yugoslavia's theorists who, very early, did research in the theory of the reform and achieved a major breakthrough. They came to believe that the pattern of a highly centralized unified system of central controls is an ossified, dogmatic, and harmful pattern which should be abolished. "According to its character, Yugoslavia's economy is a commodity economy." Therefore, "we shall change the total state monopoly over the economy to a comparatively free market economy." However, they also integrated market economy with planned guidance, and as a result provided the theoretical prerequisite for price reform, even for the structural reform of the entire economy, and determined the direction in which the reform was to advance. As to the specifics of price reform, Yugoslavia also conducted studies of the fundamentals of price formation, of the magnitude of each step in the price reform, and of the coordination of price reform with other reforms. These studies provided theoretical guidance for the final decisions on the reform plan. Before instituting its price reform, Hungary also, in the fifties, engaged in a full measure of theoretical preparations for price reform. They came to believe that Hungary should set up an administrative system which would integrate plan and market regulation, and which would operate primarily by means of economic measures, while using administrative measures only as subsidiary means. Tactics and strategy of the price reform should remain subjects of further continuous study and debate. It should be asserted that the final objective of price reform is establishment of a rational price system and price control system. It should be determined that prices should reflect value as well as the supply-demand relationship, and that the regulatory role of the price lever should be made use of to the fullest. It should be determined that price reform shall advance in small steps, and in even smaller steps when reform of consumer goods is concerned. It should be determined that the method of price reform should be one of "integrating readjustments and decontrol, readjustments at both ends, and decontrol in the middle." Products with plan

prices, such as energy sources and basic consumer goods, must be readjusted. Prices for products that are to be completely decontrolled must also first be readjusted before being decontrolled. The decision as to which products must be decontrolled and which must be readjusted will have to depend on the supply-demand situation and on their importance for the national economy and the people's livelihood. Each item must be analyzed, and detailed lists must be compiled. In determining fixed prices, the principle must be to duly consider three factors, namely production costs, prices ruling in the foreign and domestic markets, and state policy. During the process of reforming commodity prices, the price levels must be essentially maintained at a stable level. All this provided a very abundant theoretical preparation for their price reform. They also made preparations as to manpower, financial, and material resources. For instance, in the matter of manpower, Hungary in 1949 had still less than 8,000 economic specialists. Through continuous nurturing, their numbers had risen to 22,000 by the end of the 1960's. In short, through fullest theoretical preparations and preparation of manpower, financial, and material resources, Hungary had provided effective guarantees for the smooth progress of its subsequent price reform.

2. Price reform must be supplemented by reforms in other areas.

Price reform is an important organic component of the reform of the entire economic system; its impact is substantial and felt over a large area, and it must therefore be supplemented by reforms in other areas. This is a point that has been well understood, to varying degrees, by the Soviet Union and the countries of Eastern Europe when they were in the process of carrying out price reforms. During its price reform, Yugoslavia instituted a system of self-management throughout the country and carried out supplementary reforms, centered around an expansion of self-determination for local governments and enterprises. With regard to the ownership system, it instituted a system of ownership by society and expanded self-determination of the organizations of associated labor in production and business operations. As regards to the system of planned investments, it expanded the investment authority of the enterprises, allowing enterprises to have over one-third of investment rights. As regards distributions, enterprises were allowed the right to independently dispose of over 50 percent of their total profits. They also abolished the unified wage system; staff and workers remunerations were to be determined independently by the basic-level organizations of associated labor. As regards the reform of the political structure, they abolished most administrative departments in charge of economic affairs and reduced interference by central government organs in the affairs of production units. They also made efforts toward greater democratization, toward more scientific content, toward greater political and economic

openness and organic cohesiveness in matters of policymaking and cadre selection. Due to the above-mentioned comprehensive reforms, enterprises became more acutely sensitive in their reactions to price changes, which enhanced the effects of the price reform. In Hungary, around the time of price reform, attention was always paid to have the whole of reform link up with, or even proceed simultaneously with, reforms in other areas. Regarding the ownership system, Hungary first carried out enterprise mergers, so that the 1,427 enterprises existing in 1950 were reduced to 812 by 1970, and as a result had their scope of activities expanded. After decontrolling prices, the state instituted readjustments and controls with regard to all pricing done by the enterprises. It instituted at the same time a reform of the property rights of enterprises, promoted shareholding and leasing systems, and introduced enterprise bankruptcies, which resulted in a greater sense of responsibility in the enterprises and in larger profits for the enterprises. It also promoted rational mobility of the means of production and their reconstitution, thereby giving full effect to price reform. Regarding finance and taxation, indirect taxation was changed to direct taxation, taxes on agricultural products and means of agricultural production were reduced, the tax burden between agriculture and industry evened out, the chain reaction of price rises in the primary products was effectively brought under control, and the price scissors between industrial and agricultural products was narrowed. Regarding the circulation system, Hungary abolished the centralized distribution system, and for materials needed for export or for large key projects, availability of quantities was guaranteed, but not maintenance of certain prices, which was consistent with the decontrol of prices. With regard to the wage system, Hungary instituted a system of closely linking wages with final economic results, and kept workers' nominal wages rising faster than commodity prices, thus, on one hand not relinquishing control over wages, but on the other, making sure that living standards of every stratum of the population would not be lowered. Regarding the planning system, Hungary essentially abolished command-type planning, which expanded enterprise autonomy and provided favorable conditions for the decontrol of prices. Cuba, also, adopted at the time of its price control the method of instituting supplementary reforms. For instance, "to prevent the danger of reform swimming in a sea of banknotes," Cuba controlled the issue of currency, increased deposits by its citizens, and through a reduction of accumulations and by cutting down on capital constructions, by controlling wage increases and reducing imports, reduced demand, and as a result created a rather relaxed external condition for price reform.

In short, price reform in some of the socialist countries was to a certain degree supplemented by reforms in other areas, which resulted in creating an excellent macroeconomic environment for the price reform, ensured the success of the price reform, and promoted the pursuit of the price reform in greater depth. However, because

coordination was not sufficiently close and deep, the reform was unable to achieve a perfect market system and unified market rules and regulations. Demand, therefore, became excessive and financial subsidies became excessively large, ending finally in a vicious circle of prices, subsidies, and tax revenue, and of price reform finally plunging into a "Bermuda triangle"—a profound lesson to all.

3. Before being officially presented, any price reform plan must be open and lucid to all; efforts must be made to gain understanding and support from a majority of the masses.

The course of Poland's price reform is an experience of the above-stated nature. During the period from 1970 to 1980, Poland has carried out three price adjustments. Due to the fact that the planned adjustments were not in keeping with what society could endure, also that no widespread consultation with various sectors of society could take place in advance, and that the measures were sprung on the public as a sudden assault, the result was that these adjustments ended in failure. For instance, in December of 1970, the price adjustment plan presented by Poland was fiercely opposed by the masses, and Poland was forced to abandon it, not even 4 months after it was enforced. In June 1976, Poland's plan for raising retail food prices led to social unrest, which forced the Polish government to withdraw the plan within 24 hours after promulgating the decree. In July 1980, the Polish authorities decreed a 40 to 60 percent increase in meat prices. This led to unprecedented social tumult, serious social opposition, an explosion in Polish society, and a political and economic crisis. After 1982, Poland took to heart the lessons of its three previous price adjustments, and after ascertaining the people's attitude toward price reform, it advanced with steady steps. It gave attention to control the chain reaction from its price changes, and in particular, engaged in widespread consultations with the general public before officially presenting its price reform plan. For instance, in 1982, 1984, and 1985, the government, before officially presenting its price reform plan, made it public and allowed a discussion among the general public. Government leaders met directly with labor unions and similar groups and with representatives of various strata of society and earnestly listened to opinions from various quarters, also used various mechanisms and propaganda tools for a widespread survey of public opinion, and finally reviewed all opinions expressed by the masses, absorbed whatever was rational, and amended the plan. For instance, in November of 1987, when a comprehensive reform plan was readied for enforcement, the government submitted the whole plan to a referendum by the whole people. When less than half the voters were in favor, the Polish government decided to reduce the price increases to two-thirds, and split the plan, originally to be enforced immediately in full, into three annual enforcement periods. Poland's leader Jaruzelski pointed out on 1 May 1988: "Poland's reform will not abandon the road of openness, democratization, and national understanding." Other East European countries, such as

Bulgaria, Yugoslavia, and the Soviet Union have also greatly increased the lucidity of the decisionmaking process in the price reforms. This method of making the price reform plan public before presenting it officially, allowing the masses to participate and decide, has enhanced the openness and lucidity of price reform. It will allow an accurate evaluation of public tolerance, will gain the understanding of the masses for the price reform, strengthen the perception of the masses of participating in the price reform, will reduce any feelings of dissatisfaction, and will have the effect of enabling smooth enforcement of the price reform on being officially presented. For these reasons, we have to accept this method as being an important experience in price reform.

4. Method of price reform; out of consideration for the overall effects, we must maintain the principle of first adjusting before decontrolling.

Prior to price reform, almost all socialist countries have had a highly centralized price control system and an extremely unscientific mechanism for price formation. The price system was irrational mainly in that the price parity between agricultural and industrial products was irrational, prices for agricultural products were inordinately low, parity prices among industrial products were irrational, and prices for energy sources and raw materials were inordinately low. Faced with this highly irrational price system and price control system, it was of utmost importance for the smooth progress of price reform to decide whether to adopt the method of adjustments or the method of decontrolling, whether to adjust and decontrol all at the same time, whether to first adjust and later decontrol, or to adopt a method of integrating adjustments and controls. Looking at the past record of price reforms in the Soviet Union and the countries of Eastern Europe, we see that during the initial periods of their reforms they have all employed the method of mainly adjusting prices, namely having their governments raise, in a planned manner and step by step, prices for agricultural products, sources of energy, and raw materials, which had been inordinately low. During the period from the middle 1950's to the middle of the 1960's, the Soviet Union raised prices, in a planned manner, for agricultural products, on the average 3.5-fold. Yugoslavia raised prices in a planned manner for agricultural products by 33 percent in the middle years of the 1960's. Before decontrolling its prices over a wide range, Hungary first raised its procurement prices for agricultural products by around 70 percent. In the 1950's and 1960's, the GDR, Bulgaria, and Czechoslovakia all raised by a large margin their procurement prices for agricultural products. The same happened in the case of basic industrial products. In the middle of the 1960's, the Soviet Union adjusted upward in a planned manner its prices for coal 78 percent, for crude oil 30 percent, electric power charges by 21.19 percent, iron ore 127 percent, pig iron 70.1 percent, timber 34.7 percent, cement 13.1 percent, and adjusted downward the prices for lathes and other manufactured goods. In the middle of the 1960's, before its overall decontrol of prices,

Yugoslavia carried out a one-time large-scale increase in prices for industrial products, among these, prices for basic industrial materials were increased far higher than prices for manufactured goods. For instance, prices for sources of energy were raised 24 percent, metals 30 percent, industrial raw materials 23 percent, and communications and transport charges 26 percent. Hungary carried out the first stage of its large-scale structural reform in 1959, when it substantially increased prices for basic industrial products, which raised the ex-factory prices of all industrial products by 31 percent. In the early years of the 1960's, the GDR raised on the average by over 70 percent its prices for coal, electricity, ore, iron and steel, and chemical materials, and by an average of 40 percent its prices for timber, paper, nonferrous metals, and certain chemical products, while products of the machine building industry were only slightly raised in price. In short, the Soviet Union and most East European countries, before decontrolling prices for all or the greater part of their products, readjusted in a planned manner their prices for those industrial and agricultural products for which prices had been much below their value. As a result, they freed themselves of the concealed currency inflation that had long prevailed under the old system, namely of commodities being available only against ration coupons, of prices being quoted where no goods could be sold, or of people lining up for panic purchases of goods. They also thereby reduced the gap between prices and values, mitigated the irrational parity price relation, and lightened the social impact of the subsequent price control system as also of the following wide-ranging decontrol of prices for products. It shows that the method of first readjusting prices before decontrolling them must, after all, be accepted as an important international experience.

5. In its early stages, price reform must be combined with a structural reform of the rural economy, and procurement prices for agricultural products must be raised in a planned manner, in order to stimulate production enthusiasm among the peasants and promote increased agricultural production, then also to readjust the proportionate relation between agriculture, light industry, and heavy industry.

An overview of the history of economic structural reform in the Soviet Union and in the East European countries shows that most countries started their reforms with reform in agriculture. They reformed the system of quota procurements through the state's centralized monopoly agencies, reduced the quantities that the state procured in this manner, increased the proportion the peasants were allowed to sell freely, and increased many times over the procurement prices for agricultural and sideline products. At the same time, they reformed the organizational pattern of rural production and operations by broadening the scope of the peasants' self-determination. It is an objective necessity that the reform start out from agriculture. First, at the start of their economic development, almost all socialist countries followed a highly centralized and unified theoretical pattern, giving priority to the development of industry, particularly heavy

industry, to the extent that agriculture was left far behind, and the proportionate relationships in the national economy became unbalanced, which in the end obstructed any fast development of the entire national economy. It is therefore necessary to start with a solution of the rural problems and with a reform of the rural economic system. Second, in the national economy, agriculture occupies a special position, which demands to give priority to the adjustment of the agricultural production relations, so as to have them attuned to the development of the productive forces. Third, under the old system almost all socialist countries had instituted systems of compulsory sales of agricultural products and state monopolies for their purchasing and marketing, and since procurement prices for agricultural products were kept inordinately low, this method was extremely harmful to agriculture and to the interests of the peasants, as it accumulated mainly capital funds for heavy industry. For instance, in the Soviet Union, prices at which grain had to be sold to the state in 1953 were only about 10 percent of cost, beef only 5 percent, pork only 6 percent, mutton only 12 percent, and the situation was similar in the other countries. It was for this reason that every socialist country geared its price reform at the start to the reform of the rural economy, and increased procurement prices for agricultural and sideline products several times over, thereby stimulating enthusiasm among the peasants, promoting agricultural production, enriching market supplies, and thus creating the preconditions for additional reform of prices for industrial products and then also for the reform of the whole price system.

6. Price reform has to proceed in the order of first decontrolling prices for means of production, to be followed by decontrolling prices for consumer goods.

Although all socialist countries of the world raised the curtain of price reform with an upward readjustment of the procurement prices for agricultural products, and used price decontrol as the primary method of overall price reform, with a transformation of the pricing mechanism as its core, they truly advanced along the road of first decontrolling prices for means of production before decontrolling prices for consumer goods. For instance, after over 20 years of price reform, Hungary's prices for means of production are now to 80 percent free prices and only to 20 percent state-fixed, while price controls for consumer goods are comparatively strict, especially for agricultural products, with state-fixed prices presently applying to somewhat over 70 percent of agricultural products, and free prices allowed for only somewhat over 20 percent of agricultural products (mainly vegetables, fruit, and other fresh and life agricultural and sideline products). In short, Hungary has adopted a method of "controlling both ends and decontrols for the middle." They first decontrolled prices for most manufactured industrial goods, while state control was maintained mainly for energy sources, raw materials, and basic consumer goods. This order of arranging decontrols is consonant with the peculiarity of socialist countries of shortages, especially their shortages of consumer

goods. Because by first decontrolling prices for means of production, which have strong competitiveness and lesser direct impact on the people's livelihood, the role of the price lever was fully brought into play with regard to promoting industrial production and enhancing enterprise vitality. At the same time, adopting a pattern of state-fixed prices to hold down the rate of price increases for basic consumer goods to levels felt bearable by the public at large plays an important role in stabilizing the people's livelihood, controlling currency inflation, and in creating an excellent external environment for price reform. In the opposite case, Yugoslavia decontrolled all prices toward the end of the 1950's, regardless of whether for means of production or for consumer goods, and as a result, also due to some other reasons, created a persistent currency inflation, which was a predicament for price reform and for the entire economic structural reform. In the process of price reforms in socialist countries, it is therefore possible to courageously decontrol prices for means of production first, to be followed with great care by the decontrol of prices for consumer goods. These to be gradually decontrolled, but even after decontrol to be strictly supervised.

7. While price reform is in progress, control over multiple price rises and currency inflation must be achieved by every possible means.

During their price reforms, almost all socialist countries had to face the problem of raising inordinately prices for agricultural products, energy sources, raw materials, and other basic products. But raising prices for basic products is followed by a rise in costs of manufactured goods and of their sales prices, which harbors the potential of a ceaseless wave of price hikes and a rise in the overall level of prices. Most socialist countries have the ambition to go it both ways, namely the way of reform as well as the way of development, at too fast a rate of growth and with an excessive rise in consumption. It is then that the rise in commodity prices pressures finance to issue more currency, which entails the danger of currency inflation. In the actual process of socialist price reform, there arises indeed the problem of a ceaseless wave of price rises, of parity prices becoming destabilized, and of currency inflation setting in, creating within price reform the vicious circle of "price adjustments—price increases—further price increases" and "decontrols—freezing—further decontrols." For instance, in 1982 the Soviet Union, in order to solve the problem of low prices for its coal, appropriately raised coal prices, but as a consequence, prices for all manufactured industrial goods rose 4 to 6 times higher than the coal prices. In Yugoslavia, almost 90 percent of enterprise income is derived from price increases and only 4 percent is derived from increased labor input. Furthermore, for the last few years, currency inflation has remained at a high level and economic growth has slowed down, plunging the country into the dilemma of a "stagflation." Since 1980 Yugoslavia's economy has had almost nil growth but the inflation grew from 40 percent in 1980 to even more than 170 percent in the first semester of 1988. Hungary and Poland too are having the problem of the

destabilization of parity prices and currency inflation. In 1988, the price level in Hungary actually rose by almost 20 percent. It is therefore absolutely necessary during the process of price reform to control the magnitude of price rises for basic products, to make an effort to enhance the quality of manufacturing enterprises, to improve the absorbing ability of manufacturing enterprises, and to have the manufacturing enterprises absorb a part of the rising costs occasioned by increases in the prices of basic products. Every effort must be made to avoid a ceaseless wave of price increases and a destabilization of parity prices. At the same time, it is particularly necessary to adopt forceful measures to control currency inflation, because there has been no country that could accomplish price reform during a period of currency inflation. An overview of the experiences of various countries shows that the main measures to combat currency inflation are controlling the amount of currency being issued, controlling the purchasing power of social groups and controlling public consumption, reducing expenditure by public finance, and avoiding deficits in public finances. In this respect, Milton Friedman, a famous leading personality in present Western monetary sciences and recipient of the 1976 Nobel price for economics, has summarily pointed out: The key to controlling inflation is controlling the rate of increase in the issue of currency.

8. Price reform is a protracted process which cannot be accomplished within a short period of time.

It is not at all a short period of time that the Soviet Union has spent on price reform, but up to now the Soviet Union has still not yet accomplished the historical task of price reform. Yugoslavia, in the initial stage of its reform, advanced with a steady stride, was patient and cautious in its decisions, and achieved a rapid improvement of its people's livelihood, a steady growth of its economy, and comparatively good results in economic returns. However, later, it drove the reform forward at too rapid a pace, and very soon and comparatively early decontrolled all prices, transformed its pricing mechanism, and apparently was about to accomplish the historical mission of price reform, when, due to the fact that the pace of reform had been too fast, it experienced a ceaseless wave of price increases and currency inflation, which compelled it to institute controls of those prices it had previously decontrolled, going so far as to return to some degree to the old system of state-fixed prices and the pattern state control of prices by administrative means. In actual fact, Yugoslavia had become aware of this point at an early stage. Tito in his time pointed out: "We must launch a struggle against the phenomenon of precipitated action in the matter of reforming social relations." Unfortunately, no resolute measures were taken to resolve the problem. The Soviet Union has only made slight adjustments in the state's plan prices, and has not yet touched the old price control system, so that there cannot be any talk of a transformation of the pricing mechanism, which is a fundamental task of price reform. Hungary has adopted the form of "actively readjusting prices and cautiously decontrolling prices."

It has readjusted prices and also decontrolled prices, but some prices are still inordinately low, and many prices that should be decontrolled have not yet been decontrolled and are still controlled by the state, which shows that the fundamental task of price reform, namely transformation of the pricing mechanism, has not yet been accomplished. It is the same situation with Poland, Romania, and Czechoslovakia. The practice of price reform in the socialist countries thus demonstrates: price reform cannot be accomplished in a short period of time. The reason why price reform is a protracted process is that, objectively, socialist countries are still short of consumer goods and of capital funds, while demand is too vigorous. There is no spacious and accommodating external environment for price reform, and this fact restrains the pace of price reform and allows it to advance only at a slow pace. There is also the fact that the socialist countries under the old system had accumulated over a long period too many irrational price problems, especially the excessively large discrepancy between the prices for basic products and their actual value. If this point is not fully considered, and the reform pushed on in a direct line, blindly running risks, advancing with big strides, trying to attain the objective with one stride, trying to achieve price reform in a short time, it will finally be a case of haste without success, or even the cause for an early demise of price reform.

9. The elemental task and overall direction of price reform is gradual decontrol of prices, transformation of the pricing mechanism, and changing the function of prices.

The process of price reform in the socialist countries demonstrates: The elemental task and overall direction of price reform is gradual decontrol of prices, transforming the pricing mechanism, and changing the function of prices. Because it was the first to achieve the theoretical breakthrough in first realizing that socialist economy is also market economy, Yugoslavia decontrolled its prices fairly early and adopted a price pattern in which market prices predominated. As a result, it broke with the highly centralized unified price control system, transformed its pricing mechanism and the function of prices, and allowed price formation by a freely regulating mechanism. It also brought into play, to a certain degree, the role of prices in promoting the rational mobility of the means of production and their optimal coordination, as well as a speed-up of commodity circulation. However, price reform in Yugoslavia, because not supplemented by reforms in other areas, did not effectively control too vigorous a demand sector, so that that country also came to experience large rises in commodity prices and a serious currency inflation. But these are only complications in the progress, and one must not for these reasons negate the accuracy of Yugoslavia's overall direction. Because the Soviet Union never made the fundamental breakthrough in recognizing the significance of commodity economy and market mechanism in the socialist economy, it never came to realize that the elemental task of price reform, and of the direction of its advance, is changing the

pricing mechanism and transforming the function of prices. In the process of its price reform, the Soviet Union, therefore, merely applied slight readjustments, and did not use the method of gradual decontrolling to change its pricing mechanism or the function of prices. Prices were thus left without an automatic regulation by a rational mechanism and without regulatory functions. As a result, although effecting several adjustments, the main problem in its prices has still not yet been radically solved, but on the contrary has become even more serious. It is therefore necessary that the process of price reform in socialist countries, regardless of what obstacles or risks are encountered, must unswervingly advance toward deregulation of prices, toward accomplishing the task of a radical change in the pricing mechanism, and of transforming the function of prices. Whatever the difficulties, there must be no turning back; retreat is not the way out.

10. After gradual decontrol of prices, management of prices must be enhanced by means of legal measures.

In the course of price reform in the socialist countries, it was found that the more prices are decontrolled, the more they are in need of management. Because almost all socialist countries have the problem that commodity economy is not yet sufficiently developed, the market system and market rules have essentially not yet been established, and that a very sharp contradiction exists between commodity supply and demand, it happens that as soon as a gradual decontrol of prices takes place in the course of price reform and as market regulation is introduced, the price-setting mechanism of the state administration and the administrative control mechanisms are weakened. It is then that producers and business operators throughout the land, out of their own personal interests, will try to use the price determining power in their hands to distort the price movement. This will not only harm long-range interests, interests on the whole, and other people's interests, but will also induce commodity prices to rise and lead to currency inflation. There is therefore no country that will allow prices to be completely free to drift whichever way; all will use legal and other measures to control pricing activities and price distorting movements of individual producers or business operators, and will rectify such actions. Looking at the condition of price management by socialist countries, we see that Hungary, at the same time as it formulated the guiding principles for its economic structural reform and detailed enforcement regulations in the early 1960's, also drew up a "Law Concerning Violations of Regulations," which provided for severe punishment of profiteers. Later, Hungary drew up a whole series of commodity price control regulations, decrees, and laws, such as "Market Control Regulations," "Law Prohibiting Illegal Circulation," "Law Governing Prices," etc., to place its price management on a legal track. Hungary also introduced a price reporting and approval system, by means of which to exercise control over pricing. Hungary prescribed that if a unit which is allowed freedom in pricing intends to increase its prices, it must

report its intention in advance to the price control department, negotiate the magnitude of the increase, and may effect the increase only after agreement has been reached. If the increase is found unreasonable, the price bureau may stop or postpone the increase, or even freeze prices. Hungary also uses social power and has the public at large supervise commodity prices. In these arrangements, the State Commodity Control Bureau is an important price control organ. In addition, there are the Ministry of Trade, the trade unions, the commodity quality inspection offices, the commerce bureaus and industrial and agricultural production bureaus of the various county councils, and the national committee of consumers. Furthermore, each basic unit has a commodity inspection officer, so that the whole constitutes a social commodity price control network fan-like spread over the whole country. Yugoslavia promulgated in July of 1962 a "Law on Social Supervision of Prices," and later, after many amendments, came out with some supplementary price control rules and regulations, whereby prices for products on markets and for labor services were also included under social supervision. In its state of a persistent currency inflation, Yugoslavia repeatedly used administrative measures to freeze commodity prices. Poland, in the course of its price reform, not only made use of rules and regulations to control prices, but also used the interest rate and other economic measures. It prescribed that in deciding on bank interest rates, consideration must be given to the inflation factor, and that interest rates must be 2 to 3 percent higher than the inflation rate. If we look at the capitalist countries we see that they also use legal and other means to exercise control over free prices. When the Argentine Government announced its economic reform, it immediately also announced laws and regulations in execution of the reform. It prescribed ceiling prices for free prices, and demanded that all commodity and service trades must display notices that publish the ceiling prices permitted by the state. It also encouraged consumers to supervise and report persons or acts that violate commodity price regulations, and with the help of commodity price inspectors, violators of the laws will immediately be brought to justice and severely punished. Anyone who without valid reason changes normal supplies or hoards commodities for which ceiling prices have been set, anyone who provides invoices or sales documents not of the prescribed form or terms, who artificially drives up prices and exceeds the set prices, who hoards raw materials or products, disturbs services or the sale of rationed quantities, will be punished as follows, depending on the circumstances of the case: detention up to 90 days combined with the sealing-up of the offender's business for an equal period, depriving the offender for 2 years of the right to use or newly take out loans; confiscation of goods; depriving the offender for 1-3 years of his right to operate a business or serve in public office; suspension for 3 years of the use of patent rights and trademark rights; and in serious cases imprisonment for from 6 months to 4 years. By means of these punishments, they effectively put an end to the indiscriminate raising of prices. Great Britain, in the matter of controlling prices,

first encouraged competition by means of its antitrust legislation, law on competition, and other laws and decrees, and prohibited such illegal actions as monopolizing the market and prices, and second, had the state directly examine and approve prices or products and labor services from state-owned enterprises. To control currency inflation, the British Government in 1973 also directly prescribed that commodity prices must not be increased by more than the amount justified by increased costs, and furthermore, in 1988 raised interest rates eight times within only 3 months to avoid overheating of the economy and currency inflation. When the United States was hit by the energy crisis in 1973, it drew up, to overcome the crisis, a "Natural Gas Law" and instituted strict government controls over the prices of natural gas and other sources of energy, at the same time also continuously raising interest rates, stabilizing the currency, and thus controlling commodity prices. The Japanese Government also paid greatest attention to the control of free prices. First, as far as price control organs are concerned, it began in the sixties up to the middle of the seventies, to set up a price control system, directly subordinated to the cabinet, of which the main component is the commodity price bureau of the economic planning agency, and in which relevant government organs negotiate with each other, where the central and local authorities come together, and where policy decisions are the outcome of consultations. It provided in this way organizationally a guarantee for the exercise of price control. Second, by means of the "Law Prohibiting Monopolies" Japan suppressed unfair transactions and the driving-up of prices and thwarted price monopolies by enterprises. Third, charges and fees for post and telegraph services, public water supply, public bath houses, and fees for public schools are all directly determined by the government. The government also determines transport costs (including fares on regular passenger ships, railway freight charges, airline freight charges, public bus fares, truck freight charges, and motorcar rentals), charges for electricity, city gas charges, the purchase and sales price for rice, and prices of state-manufactured cigarettes, so that public charges are firmly controlled, i.e., all charges which have an important impact on the price of consumer goods. Finally, at certain extraordinary periods of time, they have adopted severe measures to control prices. For instance, in the early years of the 1970's, Japan's currency inflation had become serious, and speculative activities, such as panic buying and reluctance to sell, were prevalent throughout Japan. Under these conditions, the Japanese Government intensified its direct interference in the pricing of basic livelihood materials. In July and December of 1973, Japan formulated a "Law on Emergency Measures Against Panic Buying and Reluctance to Sell of Materials of People's Livelihood" and a "Law on Emergency Measures to Stabilize National Life," which prescribed that the special prices for 24 articles, among them soya bean, plywood, and motorcars, will be investigated at the manufacturing plants by an investigator of the government, who will interfere in the sales prices of these articles and force

hoarders of these articles to sell whatever stocks they hold. They also prescribed standard prices for four items, among them household gas and toilet paper. Besides, Japan also instituted a system of price subsidies and protective prices for certain agricultural and sideline products, such as vegetables, meat, and eggs, in order to achieve a balance between supply and demand and stabilize prices. In short, many of the world's countries use legal measures to exercise control over free prices. This control plays a certain role in the rectification of pricing by enterprises, in straightening out distortions of prices, and in controlling currency inflation. This shows that the use of legal measures to strengthen control over free prices is an important international experience in instituting price reform and formulating price policy.

AGRICULTURE

Buying and Selling of Edible Oil

40060636 Beijing DANGDAI ZHONGGUO DE LIANGSHI GONGZUO [CHINA TODAY FOOD GRAIN] in Chinese 1 Feb 88, Chapter 7

[Article: China Today: Food Grain]

[Text] Chapter 7—The Procurement and Marketing of Edible Oil

Before liberation, there was no central unit in charge of purchasing and selling edible vegetable oils. Not long after founding of the people's republic, this became the responsibility of a state-owned business when commodity flow became a part of state plan. Under leadership of the CPC and with the support of the mass of the people, very great achievements have been made during the past 35 years in the purchase and sale of edible oil. Inasmuch as increases in the production of oil-bearing crops have not been able to keep up with consumption needs, and because there has been a shortage of supply in relation to demand, for some time all plans, policies, and institutional methods have taken as their starting point ways to stir the enthusiasm of the masses for production, and how to assure supply. Steady improvements have come with practice. During the period of the "Great Leap Forward" and during the 10 years of turmoil, the purchase and sale of edible oils traveled a tortuous road, difficulties finally being surmounted with effort. Following the 3d Plenary Session of the 11th Party Central Committee, order was brought out of chaos, and a series of new rural economic policies brought about steady development of agricultural production. Edible oil production also increased enormously for a fundamental turn for the better in the edible oil purchase and sale situation, which became better and better. Under these circumstances, and in the spirit of "liberalization of policies to enliven the economy," substantial readjustments and improvements occurred in plans, policies, the administrative system, and in ways of doing business in the purchase and sale of edible oil.

Section I: An Overview of Edible Oil

The primary raw materials for production of edible vegetable oils are peanuts, sesame seeds, rapeseeds, huma seeds, sunflower seeds, oil tea seeds, and cotton seeds. These sources are known collectively as oil-bearing crops. In addition, the oil extracted from grain crops such as soybeans, rice bran, and corn germ provides another important source of edible oil.

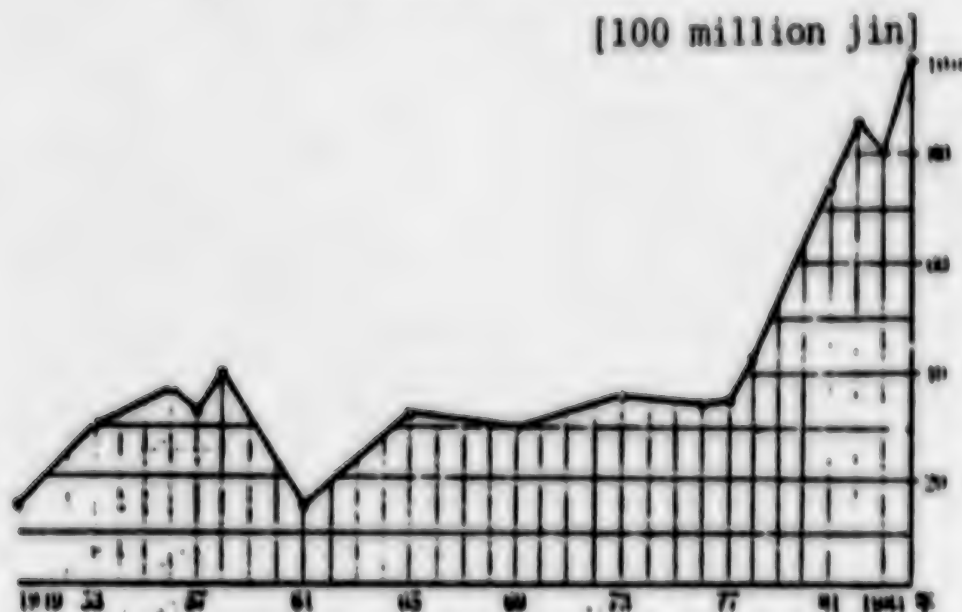
China is a country that abounds in the production of oil-bearing crops. For a long period, China was in the front rank of countries of the world in the output of quite a few oil-bearing crops. Oil bearing crops may be used in multiple ways. Not only can some varieties be directly used for eating, but the edible oil that results from their processing is not only an important product in the people's lives, but it is also a raw material or a supplementary material for numerous industrial products. The cake left over after processing may be used for fertilizer or as cattle fodder. Edible plant protein may also be extracted from it. Historically China has been an exporter of edible oil, oil bearing crops such as peanuts and sesame being traditional export commodities enjoying a reputation for quality in international markets.

1. The Expansion of the Edible Oil Procurement and Marketing Work

Following the founding of New China, a special agency for edible oil was established in March 1950. This was the China Edible Oil Company, under direct leadership of the Ministry of Trade of the Central People's Government, with responsibility for marketing edible oil inside and outside the country, and for centralized planning of domestic and foreign markets for edible oil. All administrative regions and key provinces, autonomous regions, and municipalities under direct central government jurisdiction, as well as constituent prefectures and counties, set up corresponding edible oil agencies. Thus, the purchase and sale of edible oil became one of the major tasks of commercial departments.

With the development of socialist construction and changes in the conflict between production and demand for edible oil, over a 35-year period edible oil purchase and sales work went through three stages: During the period immediately following the founding of the people's republic when five different economic components co-existed, edible oil was freely bought and sold. In 1953, monopoly purchase and monopoly sale of edible oil was instituted, and privately owned businesses were eradicated in the commodity flow realm. In addition, as control over rural country fair market trading was intensified, and the link between peasants and markets severed, a single-flow channel gradually formed in which only state-owned businesses bought and sold edible oil. Following the 3d Plenary Session of the 11th Party Central Committee in 1978, although the system of monopoly purchases and monopoly sale of edible oil continued in effect, a new situation arose in the purchase

Edible Oil Output (Table 11)



and sale of edible oil under the guiding thought of development of commodity production and commodity flow.

Production decides distribution and flow, and distribution and flow are reflected in production. To a very large extent, changes in the aforementioned stages of oil distribution and flow were determined by the production situation. Following the founding of New China, great fluctuations occurred that followed a wave-like motion of decline, comeback, halt, and rapid development occurred in the production of oil-bearing crops. (See Table 11).

The rise and falls in oil-bearing crop production are an overall reflection of many different factors, including producers' own conceptions of demand, the role of edible oil distribution and edible oil purchase and sale policies on production, the effect on edible-oil crop production of the agricultural production situation and the rural political and economic situation as a whole, bumper and lean crop years, and changes in natural conditions.

II. Ways to Solve the Conflict Between Oil Output and Demand, and Edible Oil Distribution Policy Features

Following the founding of the people's republic, the CPC and the people's government adopted many measures to solve the conflict between edible oil output and demand. These may be capsulized under two headings: One was development of oil-bearing crop production, and the other was equitable distribution. In the development of production, widespread action was taken to get peasants to plant oil-bearing crops beginning in the 1950's. In addition new sources of oil were found, and production potential tapped. Beginning in the 1960's, a campaign

was launched to make use of odd bits of land and alkaline soil for the growing of castor and sunflowers. In the 1970's a breakthrough was found in the growing of rape on otherwise fallow fields during winter. This increased oil-bearing crop production. In the area of equitable distribution, the general spirit was one of overall consideration and all-around arrangements, proper planning, and good handling from the policy standpoint of relations between cities and rural villages, internal sales and external sales, the central government and local governments, and the state and the peasants, thereby enabling one area and another, and the cities and the countryside to support each other, surpluses one place being used to make up shortages in another.

Among the above mentioned relationships, good handling of the relationship between the state and the peasants was most important. How much the state would buy and how much the peasants could keep had always been the key issue in state procurement of agricultural products, and it was also the key issue in state procurement of edible oil. Since many kinds of oil-bearing crops were grown, and because of differences between one growing area and another, prices varied for different oil-bearing crops, and commodity rates varied too. The commodity rate was very different for the same kind of oil-bearing crop in areas in which the growing of oil-bearing crops was concentrated versus areas in which they were grown here and there. Since there was also a lot of flexibility in oil consumption, since habits differed from place to place, and since animal fat could be substituted for vegetable oil, the same yardstick could not be used to plan amounts purchased by the state and kept by peasants in different areas and at different times. Therefore, the state provided only some principles to be followed with regard to edible oil crop purchase policies.

It required that all jurisdictions express the socialist spirit to each according to labor while taking "concurrent account of the interests of the state, the collective, and individuals" when setting sales quotas for production units or individuals, leaving for the peasants whatever should be left, and buying whatever should be bought. The specific method used was for all provinces, autonomous regions, and municipalities under direct central government jurisdiction to suit general methods to specific local conditions. This way of proceeding from the actual situation regarding edible oil was consistent with national circumstances.

Section II: From Free Purchase and Sales to Monopoly Purchase and Sales

I. Management Policy for State-Owned Edible Oil Businesses During the Period Immediately Following Founding of New China

During the period immediately following liberation, in order to revive the national economy, heal the wounds of war, stabilize markets, stabilize prices, and gradually improve the standard of living of the people in cities and the countryside, the CPC and the Central People's Government set a general policy for economic work of "develop production, make the economy prosper, mutual assistance between cities and the countryside, and exchange between China and the outside world." They also established state-owned trade agencies at once. The duties and functions of state-owned businesses were pointed out on 15 June 1950 in, "Report on the Economic Situation and Readjustment of Problems in Tax Collection" that Comrade Chen Yun delivered to the second meeting of the 1st CPPCC. He said that in running businesses, "state-owned trade agencies should be responsible for evening out supplies, stabilizing prices, and assisting people's cooperative undertakings. During June of the same year, the central government Ministry of Trade convened a conference of trade department directors from all administrative regions. This conference decided that the state would handle principal native products and most export commodities, yielding the vast market in other products to privately owned businesses. On the subject of prices, not only was benefit to the peasants emphasized, but those who transported goods for sale should also be able to make a profit. Retail companies were to be restricted to large cities and to large industrial and mining areas for the time being. It was on the basis of this spirit that the China Edible Oil Company devised a policy for dealings in edible oil at its first managers' meeting convened during July 1950 as follows: Exercise a spirit of foreign sales first, vigorously organizing exports for revival and development of international trade in edible oil, and enforce a policy of intervention in domestic sales to maintain price stability. Not long afterward, as the volume of business increased, and in order to plan market requirements, the policy for dealings in edible oil was spelled out further as follows: Expand business, organize exports in a planned way, closely linking internal and external sales. Domestically, emphasis was to be on supply in order to stabilize

oil prices and to insure fulfillment of export quotas. This business policy was put into effect through the policy measures given below, achieving outstanding results.

(1) Use of the regulatory role of the laws of value and buying up and dumping commodities as needed to maintain stable oil prices.

By way of reviving and developing oil-bearing crop production, and expanding exchanges between cities and the countryside, equitable regional price differences, seasonal differences, and wholesale and retail price differences were set for edible oil and oil-bearing crops during the period immediately following liberation. The principles used in setting prices was to take into account international market prices and domestic production, and to look after the interests of producers, haulers, and consumers under the principle of concurrent concern for the public and private sectors, and for producers and dealers, each making a certain profit, for best use of everything and a free flow of merchandise. In a situation of coexistence of five different economic components, in order for state-owned businesses to carry forward their market leadership role, keep prices stable, and insure smooth fulfillment of export quotas, not only did they have to guide private businesses in organizing transportation and sales, and coordinate industrial and commercial administrative units in the exercise of necessary management, but most of all they had to apply the laws of value and the buying up and dumping of products. This meant carrying out a policy of vigorous procurement in rural villages, and emphasizing supply and evening out in cities, making timely readjustment of supply and demand relationships in all regards. During April 1951, prices fluctuated in Guangzhou's peanut markets as a result of blockages in transportation that interrupted the flow of peanuts. The price of peanuts rose from 269,000 to 312,000 yuan per 100 jin (old renminbi, and the same applies hereinafter) in a 16 percent price increase. At that time, feeling there was a profit to be made, private merchants scrambled to buy up large quantities of peanuts in producing areas. As a result, peanut prices in producing areas also fluctuated. In mid-May, the China Edible Oil Company transferred large quantities of peanuts from Qingdao and Taian to Guangzhou, which they dumped on the market. Very quickly, prices tumbled to below parity price. By the end of June the price of 100 jin of peanuts tumbled from the highest price to 75,000 yuan per 100 jin, and the price of peanut oil tumbled to 85,000 yuan per 100 jin as market prices stabilized.

(2) Institution of a policy of levies in kind and commissioning cooperatives as sales agents to get effective control over sources of supply.

Two main methods were used for prompt organization of sources of supply for export. One was implementation of a policy of levies in kind on peanuts in some major oil-bearing crop producing provinces. The second was commissioning supply and marketing cooperatives to act as sales agents. By peanut levies in kind was meant

valuing a certain amount of oil-bearing crops in terms of a certain amount of grain to set a certain exchange ratio between oil and grain, allowing the peasants to pay their agricultural taxes to the state in the form of oil-bearing crops instead of grain. When calculating the grain-oil ratio, peanut prices were given a certain edge being figured at 4 percent of the purchase price. This substitution of oil for grain was a measure taken to carry out central government encouragement to the growing of special crops, and to insure the peasants' interests. This was both in keeping with peasants' needs, the peasants warmly welcoming it, and it also benefited state control over sources of edible oil. The commissioning of supply and marketing cooperatives to act as sales agents was a policy whereby state-owned businesses commissioned supply and marketing cooperatives to buy oil-bearing crops from peasants at state-set prices, premium prices being paid for premium quality. As a result of favorable treatment accorded supply and marketing cooperatives in the form of advance payment, the loan of packing equipment, and payment of handling fees, the amount of oil products and oil crops that supply and marketing cooperatives bought increased year by year as a percentage of gross value from 25.6 percent in 1951 to 47.7 percent in 1952, to 61.9 percent in 1953. The growing strength of cooperatives reduced middleman exploitation and supported agricultural production.

(3) Concerted efforts directed externally to develop foreign trade.

During the period of national economic revival when countless tasks were waiting to be done, the country required large amounts of funds and technical equipment for various construction projects, so it had to rely on the export of some agricultural products to get foreign exchange. Oil and oil-bearing crops were one of the principal items that could be exported at that time, therefore, the primary task of state-owned edible oil businesses was to organize sources of supply to fulfill export quotas. At that time private capitalist businesses had a substantial percentage of the export trade, and numerous privately owned export businesses maintained certain commercial ties abroad. The state adopted a policy of uniting as one with them in a common effort to develop foreign trade. North China region edible oil company exports to capitalist countries made through private business foreign contacts during early 1951 accounted for half of the company's total exports to foreign countries. In order to insure concerted action on the part of the public and private export sectors, exports were organized in a planned way. Foreign export price quotations were centralized and export permits were centrally issued. Later on, as a result of the rapid increase in exports to the USSR and Eastern Europe, the percentage of exports to capitalist countries declined. Taking 1950 and 1951 as an example, the percentage of exports to the USSR and Eastern Europe increased from 33.5 to 85 percent, and the percentage of exports to capitalist countries declined from 66.5 to 15 percent.

During the period of national economic revival, edible oil purchase and sales policies were fairly flexible. To a large extent, the laws of applied value regulated supply and demand. Since the state-owned company was responsible for both domestic sales and exports, it could convert and even out varieties as needed through the import-export trade, arranging domestic market supply on the basis of international market information and the supply and demand situation. This system functioned rather well in improving economic returns from the edible oil business, in reviving the national economy, and also in developing foreign trade. In September 1952, the Central People's Government established the Ministry of Commerce and the Ministry of Foreign Trade with separate responsibilities for domestic and foreign trade. At the same time, it abolished the existing Ministry of Trade. Thereafter, the China Edible Oil Company came under leadership of the Ministry of Commerce in the central government with responsibility only for supplying merchandise for the foreign market. No longer was it directly engaged in exports.

II. Exercise of a Monopoly Purchase and Sales Policy for Edible Oil

1. The edible oil market on the eve of monopoly purchase and monopoly sales.

In 1952, the unlawful actions of private capitalist businesses came under heavy attack during the "Three Anti" and "Five Anti" campaigns. Some private merchants who dealt in edible oil looked on passively and were anxious to get rid of most of their merchandise. As a result the state-owned company's amount of purchases increased, and not all the edible oil in the hands of supply and marketing cooperatives could be sold. For a time, it was mistakenly thought that there was too much oil, and efforts were made to sell large quantities of it. As a result, a false glut appeared in the oil market for a time. At the end of 1952, CPC Central Committee issuance of "Instructions on the Readjustment of Business," enlarged the differential price between one region and another, and aroused the business initiative of private merchants. The market started to come alive very quickly. Due to the start of large scale economic construction, demand for oil rapidly increased from all sides. A dramatic change occurred in the edible oil situation in which supply did not meet demand, and this situation became worse with each passing day. From the first through the third quarters of 1953, the state-owned companies edible oil purchases amounted to only 60 percent of plan for the entire year. After the autumn oil-bearing crops went to market, despite the adoption of measures to halt private merchant exports to capitalist countries and to increase supply, the situation in which state-owned business purchased little but sold much did not improve. State-owned edible oil sales volume as a percentage of total sales rose steadily in Beijing, Tianjin, Shanghai, Wuhan, and Guangzhou. During the first quarter of 1953, state-owned businesses made 54.5 percent of sales. By the third quarter, the amount rose to 76 percent. Particularly notable was the situation in Shanghai where state-owned business' edible oil sale

plans were repeatedly expanded, actual sales finally amounting to three times more than the original plan. This trend appeared in only some large cities during the second quarter, but by the third quarter it gradually expanded to some medium-sized and small cities. In September, edible oil sale volume for the whole country broke the plan figure for the whole year. After a shortage occurred in oil markets, unscrupulous private merchants resorted to hoarding, illegal pre-emptive buying, black market trading, and all kinds of illegal methods in order to make exorbitant profits. They planned to control the sources of supply and to manipulate the market. Everywhere, the black market price of oil was higher than the parity price, sometimes more than double. This intensified the masses' fear of a shortage. The mass craze to buy up edible oil gradually spread from the large cities of Shanghai and Guangzhou to some medium-sized and small cities. In Shanghai, when the masses lined up to buy up edible oil, they even used wash basins and vases as containers. In Nanjing, after the evening theater performance was over, some people still lingered at oil shop doors waiting to buy oil. In Suzhou, many oil shops could only sell oil for slightly more than an hour each morning before exhausting their supply.

As a result of the poor showing in purchases and the increase in sales, plus the inability of producing areas to deliver edible oil according to plan, many places had no choice but to tap their reserves in storage. By the end of the third quarter of 1953, the country's edible oil in storage stood at only 41 percent of the figure for the same period in 1952. During the period of severest shortage, edible oil in storage in large cities such as Beijing, Tianjin, Shanghai, Wuhan, and Guangzhou was sufficient for only several days of sales, and there was an ever-present danger of running out of stock.

The most fundamental reason for the shortage of edible oil, the interference and sabotage of unlawful private merchants aside, was the inability of increased edible oil output to keep up with consumption needs. After conclusion of the national economic revival period, output of major industrial and agricultural products exceeded the level before the war of resistance to Japan, but oil-bearing crop output remained far below the level before the war, output reaching only 76 percent of the pre-war figure. During this period, the volume of oil sales increased very rapidly. Domestic sales increased approximately 200 million jin per year, and foreign sales increased approximately 160 million jin for a very sharp conflict between production and demand. Under such a situation, the slightest stimulus brought a response that intensified the shortage situation.

2. Implementation of a Monopoly Purchase and Monopoly Sales Policy for Edible Oil

Once the oil shortage occurred, the state took a series of actions to moderate the situation. When the new rapeseed crops was harvested in 1953, private merchants' exports of rapeseed (or rapeseed oil) to capitalist countries were halted, and some needed restrictions were

placed on private oil merchants' oil dealings. In order to improve the supply of edible oil to large cities, various kinds of oil were blended: peanut oil, cottonseed oil, and soybean oil being mixed together for sale. In the allocation of oil-bearing crops among provinces, it was ruled that the area into which the crops were sent had to return sideline products and cake residues remaining after processing to the province from which the crops came. Although these actions played a certain moderating role at the time, they could not fundamentally change the oil shortage situation. The key problem was how, on the one hand, to develop production while effectively controlling sources of supply distributing oil fairly on the other. In October 1953, following institution of monopoly grain purchases and sales, the CPC Central Committee decided again on 13 November to institute planned purchase and sale (monopoly purchase and sale) of oil-bearing crops. It approved "Report on the Current Edible Oil Production and Sales Situation and Methods for Handling It," which Chen Yun had personally drafted. The main spirit of this report was state monopoly purchase of oil-bearing crops, and state monopoly dealings in oil-bearing crops, private merchants being permitted no part. The main kinds of oil-bearing crops such as peanuts, sesame seeds, rape seeds, huma seeds, and oil tea seeds were to be distributed downward, level by level, according to a centrally-handed-down purchase plan. The report also provided for monopoly purchases of oil-bearing crops and monopoly purchases of grain to be conducted at the same time, no separate time being set and no additional specifics being established. In concentrated peanut and sesame growing areas, the proportion of monopoly purchases (i.e., monopoly purchases as a percentage of output) may be somewhat higher than in other areas since the commodity rate is higher, approximately 70 percent of the peanuts and 65 percent of the sesame being purchased. In ordinary peanut and sesame growing areas, oil-bearing crops were to be purchased in the same way as grain; that is, at the time the state bought grain, the peasants were to be allowed to turn over oil-bearing crops to the state in accordance with the state-set comparable price between grain and oil-bearing crops.

Going from free purchase to monopoly purchase constituted a very great change in oil-bearing crop dealings. Since the level of oil-bearing crop production varied from place to place, and since commodity amounts varied, this meant allowing jurisdictions a substantial amount of leeway from the very beginning in specific ways in which monopoly purchases were made. All jurisdictions were allowed to suit methods to their specific circumstances. During the beginning stage of monopoly purchases, the methods that each jurisdiction used in making monopoly purchases were steadily improved. Generally a process took place that went from mobilizing the peasants to sell, to defining areas of surplus and shortage. This was followed by the monopoly purchase of the prescribed percentage of all oil-bearing crops remaining after retention of the portions needed for seeds and as an oil ration.

Monopoly purchases of oil-bearing crops began at the end of 1953. Monopoly grain purchases, as well, had only just begun at that time, so responsibilities were very heavy. Although the peak of the busy season for sending oil-bearing crops to market had passed, the purchasing of oil-bearing crops simultaneous with purchasing grain was very difficult. In fact, most places simply increased market control, forbade buying and selling by private merchants, and mobilized the peasants to sell as a means of buying oil-bearing crops. The result of this mobilization of the peasants to sell was that the masses sat on the sidelines looking on. Those who did not sell or who sold little profited at other people's expense from the holding of a large amount of oil-bearing crops. Those who actively took the lead in selling their crop had trouble getting oil and cake residues for their own use. In addition, the standards that individual jurisdictions applied in supplying oil to households short of it differed in severity, with the methods differing also. Lack of experience and concrete methods resulted in poor handling of processing the surplus oil-bearing crops remaining after rural monopoly purchases, as well as attempts to organize the balance surpluses and shortages. These situations had a certain amount of adverse effect on peasant willingness to sell. Consequently, beginning with the oil-bearing crop monopoly purchases in the fall of 1954, all jurisdictions made the following improvements in monopoly purchase methods:

In heavy production areas, production was set for specific tracts. (Note: Setting production for specific tracts was a method used at the time for estimating yields. Fields were divided up into tracts on the basis of the quality of the land, then the yield per unit of area was calculated for a tract as the basis for figuring yields from like plots of land.) First yields were determined as a basis for subsequent determination of which households had an oil surplus and which ones an oil deficit. This formed the basis for oil distribution and purchase policies, a monopoly purchase quota being assigned surplus oil households. Each jurisdiction set its own standards for surplus oil households. After deducting for seeds, most households kept enough oil-bearing crops for 5 or 6 jin of oil each year, or possibly as little as 2 or 3, or even 1, jin. In general, the amount was higher in the south than in the north. The oil-bearing crops that oil surplus households kept could be consigned to supply and marketing cooperatives for processing, or exchanged with them for oil. The state supplied oil to oil-short households, but no fixed amount was set. The state decided the amount to be supplied without any public announcement. The principle applied was that supply to oil-short households was generally less than the amount that oil surplus households received. Since evaluation of yield was difficult in places in which production of oil-bearing crops was scattered, in such places increased market control and mobilization of the peasants to sell continued to be used.

With regard to the varieties of oil-bearing crops under monopoly purchase, in addition to the regulations set by

the Central Finance Committee, provinces, autonomous regions, and municipalities under direct central government jurisdiction, carried out monopoly procurement or assigned procurement in heavy production areas and for crop varieties that produced substantial amounts. Jurisdictions beneath the province level, however, could not add crop varieties for procurement. After grain departments purchased soybeans (the oil extraction portion), and supply and marketing cooperatives purchased cotton seeds while concurrently purchasing grain and cotton, they turned them over to the edible oil company for oil extraction.

In studying the edible oil problem in February 1955, the National Finance and Economic Conference concluded that although the edible oil monopoly purchase methods of 1954 distinguished between surpluses and shortages, nevertheless, the methods reflected no distinctions among surplus oil households in monopoly purchase of all their surplus oil minus the portion retained for their personal use. This remained a shortcoming. This conference enunciated the distribution principle of "the more production, the more gain, and greater retention of increased production" by way of arousing peasant enthusiasm for production. This policy required first, that in setting monopoly purchase quotas, each jurisdiction purchase only a certain percentage of excess oil to enable those peasant households that produced more oil-bearing crops to get more oil-bearing crops for their personal use than those peasant households that produced less oil-bearing crops. Second, in cases where the peasants had expanded the oil-bearing crop growing area or had increased yields per unit of area over the previous year, the state should purchase only between 40 and 50 percent of the increase, the peasants doing as they liked with the remaining 50 to 60 percent. In this way, those who produced more could keep more.

Beginning in the autumn of 1955, all jurisdictions began to enforce the foregoing distribution principle of "the more production, the more gain, and greater retention of increased production." The specific methods used took the following forms: (1) A certain percentage of surplus oil-bearing crops remaining after deducting the portion for personal use was monopoly purchased. (2) A certain percentage of output was monopoly purchased. (3) Different standards for retention were set on the basis of per capita oil-bearing crop production. In order to take care of rural villages' need for cake residues and livestock feed, quite a few places returned a portion of cake residues to peasant households selling oil-bearing crops, or gave them priority in receiving supply. Although the principle of "the more production, the more gain, and greater retention of increased production" was raised later on in different ways at different times in expressions such as "the more production, the more food, the less production, the less food;" and "produce more, sell more, keep more; produce less, sell less, keep less," arrangements for the peasants to retain a portion always held to the spirit of acknowledging differences. Although methods for monopoly purchases of oil changed each

year from 1953 through 1955, the setting of quotas usually occurred around the time of the autumn harvest, which was too late. The peasants wanted to know earlier how much the state would buy, and how much they would keep so that they knew where they stood in order to plan production well. In addition, monopoly purchases of oil-bearing crops had strong policy overtones, and a substantial amount of work had to be done. Being able to link monopoly grain purchases with oil-bearing crop purchases, planning for them simultaneously, helped in carrying out policies and fulfilling quotas. With this in mind, in February 1956 professional responsibility for oil was placed under centralized leadership of grain departments in the Ministry of Commerce following State Council approval. The China Edible Oil Company in the Ministry of Commerce was abolished, and a grain bureau was set up within the Ministry of Grain to become a unified government and enterprise management unit. All edible oil agencies in provinces, autonomous regions, and municipalities under direct central government jurisdiction made corresponding readjustments. This set the stage for closely linking monopoly purchases of both grain and oil. Beginning in 1957, without changing existing policies, all jurisdictions were required to make centralized arrangements about oil purchases, and to publicize them in a centralized way in advance of the planting of oil-bearing crops and along with similar information about grain, and all jurisdictions were required to hand down, level by level, oil-bearing crop monopoly purchase quotas simultaneous with the handing down of oil-bearing crop planting plans, purchasing to be done by agricultural cooperatives. After the autumn harvest, there was to be no increase in quotas, the better to reflect the spirit of "the more production, the more gain, and the greater retention of increased production." However, since agencies responsible for edible oil had so recently merged at that time, many functions had not kept pace. In addition, because of the heavy burden involved in the requisition procurement of grain, frequently attention could not be given to both matters at the same time in actual practice. Many places did not issue quotas in advance of spring planting, and during monopoly purchases in the fall, they based purchases on estimated output.

Whether all or a percentage of the surplus oil was monopoly purchased, the peasants themselves had to hold out their own ration; once the state purchased surplus oil, it did not provide additional oil to surplus oil households. However, the task of determining which households had a surplus and which had a shortage, and to what extent, took a lot of work. In addition, because of limited oil processing facilities in some places, the peasants were anxious to sell all their oil-bearing crops including the portion they should hold back for their own use. Consequently, the way the process actually worked was that most places bought all the crop, and then sold the peasants' ration back to them. This situation of much buying and selling lasted until the 1960's. For example, up until the 1960's, the state bought virtually all oil-bearing crops in Jiangsu Province, with

the exception of amounts held back as seeds. Then the state provided peasant households an oil ration in different amounts depending on whether they were households that had produced surplus oil-bearing crops, or whether they were self-sufficiency households that had neither a surplus nor a shortage of oil-bearing crops. Jiangsu Province was by no means the only province to do things this way.

What the peasants could do with the excess oil and the excess oil-bearing crops remaining after they fulfilled their purchase quotas, and how rural markets were to be controlled, was spelled out in a December 1953 document issued jointly by the Ministry of Commerce and the National Supply and Marketing Cooperative Headquarters. It provided as follows: Once monopoly purchase quotas have been completed, free markets may be maintained under state control in rural villages and rural market towns where the peasants may exchange their surplus edible oil and oil-bearing crops. Privately owned oil crushing shops in rural villages and market towns may buy oil-bearing crops for the purpose of extracting the oil and selling it, or they may extract the oil for peasants. Peddlers may buy edible oil and oil bearing crops and offer them for sale in the environs. However, privately owned oil workshops, oil-crushing shops, and peddlers must register with the local people's government or industrial and commercial administrative agencies. They are permitted to engage only in legitimate buying and selling; they may not hoard and profiteer." The spirit of this regulation was that rural markets could be enlivened somewhat so long as monopoly purchases and sales were upheld. It was entirely necessary that this be done. In Hebei Province, where sesame was grown on small plots over a widely scattered area, making state purchase difficult, the Hebei Provincial Oil Company removed restrictions on the sesame market during the first half of 1955 before monopoly procurement of oil-bearing crops was finished, allowing the peasants to exchange oil-bearing crops for oil. It also organized grassroots level supply and marketing cooperatives, oil hawkers, and oil peddlers to carry out a widespread general exchange of oil-bearing crops for oil. Between January and July, it purchased a total of 8.35 million jin of sesame seeds, more than double the amount purchased during the peak season of monopoly purchase during the previous year. However, many provinces and regions did not remove restrictions on markets at any time during the year, but exercised rigid control in order to fulfill their monopoly procurement quotas.

On the issue of monopoly sales of edible oil in cities, the Ministry of Commerce and the Supply and Marketing Cooperative Headquarters issued a joint document in early December 1953, which provided as follows. Large and medium-sized cities at the county level and above, industrial and mining areas, market towns along railroads, and wharfs along the shores of important rivers are to institute a system for supplying fixed oil rations that is generally identical to the method used for planned grain supply, the size of rations to be determined by

individual provinces, autonomous regions, and municipalities under direct central government jurisdiction as local circumstances warrant. At the same time, it proposed that for large cities having a population of 1 million or more, an edible oil requirement of approximately 13 jin per person per year should be used as a guideline figure for setting supply. This figure included consumption by the transient population in cities, and the amount needed by restaurants, pastry shops, and for preparing snack foods such as deep-fat fried peanuts. It did not include animal fat or edible oil used for industrial purposes. Prior to this time, some cities in Jiangsu and Fujian provinces had implemented planned supply during the third quarter of 1953 because of the shortage of edible oil. During the first quarter of 1954, large cities like Guangzhou, Beijing, Tianjin, Shanghai, and Wuhan instituted planned supply one after another. In order to give further impetus to this task of providing a fixed oil ration, during the month of May, the Ministry of Commerce convened seminars on edible oil supply in large cities and industrial and mining areas in which experiences were exchanged and methods worked out. Following the meetings, monopoly sales of edible oil in cities and towns were gradually extended to all large, medium-sized and small cities throughout the country. Although urban oil supply plans were put into effect at different times, inasmuch as experience was lacking at the time in how to go about monopoly purchase and monopoly sales, the safe and sure way of supplying cities with edible oil according to plan was to begin with large cities, and gradually expand to medium-sized and small cities. The system, methods, and so forth, for supply of edible oil to cities under plan were formulated only after summarization of experiences gained in earlier implementation of plan supply in some cities. Consequently, the methods themselves were fairly well worked out, and workable in practice as well. Virtually no major changes were made later on.

Historically, a definite gap existed between cities and the countryside in edible oil consumption. This gap could be narrowed only gradually; it could not be closed suddenly. Therefore, the principle that cities and towns employed in monopoly sales of edible oil was of equal concern for the needs of cities and the countryside: assuring needs, recognizing the existing situation, and taking care of special requirements. The urban supply quota was divided into three different categories for direct supply: oil for residents (their oil ration); oil for food businesses (meaning oil needed by small eating houses, pastry businesses, and deep fried twisted-dough stick businesses); and special needs for oil (meaning supplementary amounts for minority nationalities, for weddings and funerals, for holidays, and for people doing particularly strenuous physical or mental work). The oil ration for residents was a fixed amount per person supplied against coupons or certificates. Oil for food businesses was supplied under plan on the basis of actual requirements, each business drawing up a plan that had to go through various approval procedures. Oil required for special needs included not only supplementary amounts

required for holidays, for which standing provisions existed, but also supplies permitted following specific approval procedures. The above categories of supply were for direct consumption. In addition, the state had to plan annually for a certain amount of edible oil to be used in industrial production, such as in the manufacture of soap, paint, and printers' ink.

City and town edible oil consumption frequently changed with the production situation. The supply standard for large cities ranged from a maximum of 1 jin to a minimum of 7.5 liang per person per month from 1954 through 1957. For medium and small cities, the ration supply standard was generally around 5 liang.

Following institution of monopoly purchase and supply, no longer was the policy pursued in which foreign sales were paramount and the domestic emphasis was on supply, as had been the case in the period immediately following liberation. Instead, the policy was one of complete responsibility to the market, state-owned businesses having good performance in both purchases and sales their main duty, insuring oil supplies to the non-agricultural population on both cities and the countryside, as well as oil needs in every other regard.

III. Accelerating Production, and Widening Source of Oil Supply to Balance Supply and Demand

Production is the material foundation for distribution. The CPC Central Committee devoted an extremely large amount of attention to edible oil production in order to solve the conflict between output and demand for edible oil. In November 1953, not long after announcing plan procurement, the State Council issued "Instructions on Increasing Output of Oil-bearing Crops," which called for appropriate expansion of the oil-bearing crop growing area while making sure not to hurt increases in grain production. Some of the sandy soil in north China could be set aside for peanut production, and winter wheat growing areas of south China could suitably expand the rape seed growing area. Mountain regions could expand the growing of oil tea, walnuts, and such tree-borne oil-bearing crops. By way of encouraging peasants to increase output of oil-bearing crops, it was also decided to make some loans for peanut seeds, to promote the advance payment contract system, and to raise purchase prices of oil-bearing crops. In September 1954, the the CPC Central Committee and the State Council also issued an instruction on stimulating peasants to increase oil-bearing crop production, which called on all peasants to grow more oil-bearing crops no matter whether areas where the growing of oil-bearing crops was concentrated or spread out, and no matter whether they had previously grown oil-bearing crops or not. They were to find a small amount of land, no more than 1 fen per person, for the growing of oil-bearing crops without encroaching on the growing area for other crops. The instruction also called upon peasants who had never grown oil-bearing crops to achieve family self-sufficiency and village self-sufficiency in 1955, no longer relying on the government for supply. In this connection,

RENMIN RIBAO published an editorial titled, "Energetically Increase Oil-bearing Crop Production To Improve the Supply of Edible Oil." If each person produced 3 jin of oil on a single fen of land, self-sufficiency could be attained at the current level of production and at the standard of living in rural villages. This proposal demonstrated that from the outset of monopoly purchase and sales of edible oil, the CPC Central Committee adhered to a guiding thought of self-reliance with regard to the rural edible oil distribution issue, buying only the peasants' surplus oil.

In order to promote production of oil-bearing crops, in May 1954 the Central Finance Committee decided on a complete readjustment of edible oil purchase prices, including an average 5.4 percent increase for peanuts, and a 5.9 percent increase for sesame. In January 1957, it made another complete readjustment of oil-bearing crop purchase prices, the percentage of increase nationwide being as follows: Rape seed, 29.7 percent, sesame seed, 25 percent, and tea oil, 24.8 percent. Simultaneous with the two purchase price increases was a corresponding readjustment of edible oil sale prices.

Beginning in early 1954, the state also instituted prepayment for peanuts, sesame, and rape seeds in bearing crop producing areas. It signed agreements with peasants providing for partial prepayment for amounts to be sold in order to help along agricultural cooperative production. In order to increase production of oil-bearing crops from trees, in August 1957 the state issued 32 million yuan in loans, and provided 15 million jin of supplementary grain to oil tea producing areas. These measures greatly stirred peasant enthusiasm for production, giving powerful impetus to the development of oil-bearing crop production.

Widespread opening of new sources of oil and tapping production potential to increase social wealth were important measures proposed in the early 1950's for solving the conflict between production and demand for edible oil. The substance of this approach was amplified in practice over a long period of time thereafter for rather good results. Not long after implementation of monopoly purchase and sales of edible oil back in 1954, government departments concerned jointly organized a committee to increase output of edible oil, which held several meetings on this topic, and offered recommendations. In addition, its proposal of quotas to increase production gave powerful impetus to this work. Edible oil resources were plentiful, and there were many avenues for increasing output, both in agriculture and in industry. Examples included the gathering of wild oil-bearing plants, doing more during the period around harvest time when the peasants collect wild plants, squeezing oil from rice bran and from corn germ, increasing the oil processing outturn rate, organizing rural processing of soybeans for livestock feed, and using cold pressing of bean cake to make beancurd. Tiny trickles do mighty rivers make. After many years of accumulating experiences, some projects became sources of large amounts of oil for some areas, playing a positive

role in balancing receipts and expenditures and in improving the supply of edible oil. Examples included bran oil from the paddy growing regions of the south, and the corn germ oil from the northeast. Some projects became important components in improving operation of the grain system, and were placed on daily agendas as regular tasks to be performed.

As was said above, following the institution of monopoly purchase and monopoly sale of edible oil, despite reliance on administrative intervention in the purchase and sale of oil, greater attention was given to the peasants' own interests in both the production and circulation fields, and economic measures were adopted, to a certain extent, to stir peasant enthusiasm to produce and to sell oil-bearing crops. As a result, the oil situation was very good during the First 5-Year Plan, the conflict between production and demand moderating somewhat. The year 1957 was a disaster year, yet oil output was 18 percent higher than in 1953, and much higher than in 1949. During the First 5-Year Plan, oil output was 5.4 jin per capita per year (6 jin in peak years); the rural level of retention was 3.6 jin per capita per year; and the city and town nonagricultural population oil ration was 7.8 jin per capita per year, all of which were the highest levels attained since liberation. Edible oil exports averaged 520 million jin per year for foreign exchange earnings of somewhat more than \$100 million for first place in gross output value of agricultural product exports at that time, and making a proper contribution in helping to build socialism.

Section III: Readjustment Policy During the Three Year Period of Difficulties to Moderate the Shortage Situation I. Trend Toward Shortage in Edible Oil Situation Following Easing

During the three years of hardship in the wake of the Great Leap Forward, another trend toward edible oil shortage occurred. Although nationwide output of oil for 1958 rose to 3.9 billion jin from 3.41 billion jin in 1957, setting a record for the 1950's, harvesting was done carelessly, and insufficient attention was given to purchasing work. During this year, actual state purchases of oil were 340 million jin less than the average amount purchased during the First 5-Year Plan period. On the sale side, loss of control caused the sale of 350 million jin more than during the First 5-Year Plan. As a result of more sales than purchases, 260 million jin had to be taken out of storage. Despite the increase in the amount purchased in 1959, there was no reduction in the amount sold. The supply of edible oil became increasingly short. Even more serious was that following the establishment of peoples' communes, arbitrary and impractical instructions, and the "premature transition to communism" dampened peasant enthusiasm. Agricultural production was seriously damaged, and the grain problem became increasingly apparent. Under these circumstances, after deciding that a shortage in one area was better than a shortage in multiple areas, in May 1959 the CPC Central Committee took the drastic step of halting supply of edible oil to rural villages for 4 months, simultaneously

reducing urban residents' edible oil ration. As a result of the dramatic decline in edible oil output following the halt in providing edible oil to rural villages, the oil situation worsened instead of improving. By 1961, edible oil output fell to only 1.51 billion jin, which was even lower than the 1949 output immediately following liberation. The country only had an extremely small amount of oil on hand, approximately only one-third the average figure for the First 5-Year Plan. During this period, the city oil ration was reduced once again, finally falling to 2 liang per person per month. Medium and small cities were frequently out of stock; an oil deficit developed; and the country had to import some edible oil to meet urgent needs. In industry too, an oil emergency existed everywhere. It even became impossible to continue to supply oil to make soap used in daily life, causing very great added hardship in the daily life of the people.

The shortage situation faced in edible oil work after 1958 was like the market chaos and the shortage of supply that existed in 1953 before the advent of monopoly purchase and monopoly sales. Both arose out of production being unable to meet demand. However, problems that occur at different period are not identical. The edible oil problem of 1953 resulted not only from a conflict between production and demand; it was also a problem caused by the disruption and sabotage of unlawful private merchants; therefore, the administrative measures of monopoly purchase and monopoly sales had to be used to effect equitable distribution and ease the conflict between supply and demand. The post-1958 edible oil situation occurred after completion of the three major transformations, and after commodity circulation was placed under the sole administration of state-owned businesses. The damage caused to agricultural production by "leftist" errors as well as mistakes made in work performance caused it. Solution to these problems required readjustment of purchase and sales policies to accelerate oil-bearing crop production. Success could not be obtained through reliance solely on administrative power.

II: The "Eight Edible Oil Proposals" and Their Implementation

As a result of the oil shortage at that time, the leading party group in the Ministry of Grain repeatedly studied the problem, and presented the "Report on The Current Edible Oil Situation and Future Views" to the CPC Central Committee in June 1961. This report suggested substantial readjustment of edible oil purchase and sales policies, making eight major proposals. The CPC Central Committee agreed with this report (hereinafter termed the "Eight Edible Oil Proposals") and forwarded it to all jurisdictions for implementation. The main spirit of the report was as follows: Continue to carry out the distribution principle of "the more production, the more food; the less production, the less food, focusing on problems that occurred in the past of overly high production estimates, overly large quotas, and buying too much while leaving too little for the peasants." It proposed that

a fair proportion must be set between the amount that the peasants kept and the amount that the state purchased, purchases being made only after the peasants kept their share in order to insure the peasant's own needs. After fulfilling the state's monopoly purchase quota, the peasants should be allowed to dispose of remaining edible oil as they saw fit. They should be permitted to sell it freely in rural country fairs. When collectives and individuals used vacant land to grow edible oil crops, or when individuals grew oil-bearing crops on their private plots, whoever grew it owned it and benefited from it. The state would not collect taxes on it or include it in monopoly purchases. Basically, the state preferred to purchase oil rather than oil-bearing crops. Oil-bearing crops could be processed where they were grown, the cake residue reverting to the peasants with no offset (or substitution) for grain rations, and no offsetting (or substitution) for livestock feed. Since there were numerous varieties of edible oil-bearing crops spread over a wide area that were adapted to many kinds of soil, and could be grown everywhere, basically the state only purchased oil from rural villages, but did not sell oil to them. Oil-deficit areas had to produce their own oil for self-sufficiency. In order to revive and develop oil-bearing crop production and increase the commodity rate, each jurisdiction had to suit general methods to specific circumstances for gradual building of edible oil-bearing crop commodity production bases. As an edible oil management system, the central authorities instituted contracting of quotas to be consigned to higher authority in oil-bearing crop production areas, the central government being responsible only for supplying Beijing, Tianjin, Shanghai, and the armed forces, and needs for exports, and providing some help to specific genuinely needy areas in order to stir local enthusiasm further. This report also said that any change in the urban edible oil consumption situation would be very difficult over the next 2 or 3 years. All that could be done was to eat less and consume less of it. Oil needed for industrial purposes would have to come from the opening of additional sources of oil, actively seeking substitutes, making greater use of synthetic fatty acids in the manufacture of common soap and toilet soap, and promoting the use of synthetic detergents as a substitute for soap.

The "Eight Edible Oil Proposals" was an important document pertaining to edible oil production and distribution that was issued during the 3 years of economic hardship for the purpose of advancing work on the edible oil problem. It played a proper role in easing the edible oil shortage at that time. Implementation of a policy where the peasants could retain their own ration before state purchases as a means of encouraging peasant enthusiasm for production, made possible the more pervasive enforcement of rural oil retention policies. By 1962, virtually all places that had left only sufficient oil-bearing crops for seeds at the time of monopoly purchase during the First 5-Year Plan, selling an oil ration back to peasants after buying their oil-bearing crops, now changed to "two retentions," namely peasant retention

of both seeds and an oil ration. Two main ways were used to do this. In places growing mostly a single type of oil-bearing crop, purchase and retention went hand in hand. When the crop was being assembled for movement into warehouses, the peasants kept the full amount of seeds, and they also kept a portion of the oil ration provided by state-set standards, the amount being supplemented following fulfillment of their quotas. The other way was used in places that harvested both a summer and an autumn oil-bearing crop. Usually the peasants kept a small amount of oil ration from the summer crop, and kept more from the autumn crop, the two added together to make their oil ration for the whole year.

Essentially, the state purchased oil rather than oil-bearing crops, largely because it wanted to support production and solve the masses' urgent need for cake residue fertilizer. At the same time, it also wanted to develop commune and production brigade enterprises, increase peasant income while reducing the amount of hauling for rural villages, thus saving labor. Rural processing conditions were generally rather backward, however. Some places that produced large quantities of oil-bearing crops had few processing facilities or even no processing equipment at all. Changing this state of affairs in order to create conditions for producing oil required a certain process. In some places, the price parity between oil and oil-bearing crops was unfair. The peasants made more money from the sale of oil-bearing crops than from the sale of oil. In some places, the peasants wanted to sell their oil-bearing crops to the state in order to get cash as quickly as possible. For these reasons, in actual practice, the state continued to buy both oil-bearing crops and oil. In most years, only about one-fifth of its purchases was oil. However, there was great unevenness in amounts from place to place and between one kind of oil and another. In some places and for some kinds of oil, mostly oil was purchased, tea oil from Hunan and Jiangxi, for example.

After instituting the policy of mostly buying but no selling of oil in rural villages, the state no longer supplied edible oil to rural villages for the most part, with the exception of supplies for fishermen, salt workers, vegetable growers in suburban areas, special economic crop areas where oil-bearing crops could not be grown, and high yield paddy rice areas. Not only did this reduce the amount of oil sold to rural villages to approximately 200 million jin from the between 700 and 800 million jin of the 1950's, thereby reducing state administrative expenses, (the reduced sales were also attributable to full implementation of the oil retention policy), but it also spurred some oil-short areas to self-reliance and an effort to produce edible oil for self-sufficiency. The peasants in oil-short areas generally used the following means to solve their oil problem: (1) Production teams planned production of a certain amount of oil-bearing crops; (2) Odd bits of land were used to grow castor or other oil-bearing crops, which were exchanged with the state

for edible oil; (3) oil was extracted from soybeans processed into livestock feed, and oil-bearing crops grown here and there or collected in the wild were exchanged for oil; and (4) country fair trade provided oil.

The building of oil-bearing crop bases could make full use of the land to increase production, providing the state with more commodity oil-bearing crops. At the same time, it could increase peasants' income and help consolidate the collective economy. However, because of the lack of concrete actions, action in most places halted at calling for such bases.

The overall spirit of the "Eight Edible Oil Proposals" was to enliven the buying and selling of edible oil. Neither the state in its relations with the peasants, nor the central government in its relations with local governments exercised very stringent or stifling control. Their goal was to resolve the conflict between production and demand for edible oil by arousing the enthusiasm of all quarters, and by opening up sources of oil and limiting consumption of oil. This spirit was entirely correct. It was consistent with the character of edible oil as a commodity. In most places, it was carried out well and effectively. Some of its provisions were inevitably bruised to a certain extent because of the limitations of objective conditions.

III: Other Measures Taken to Arouse the Peasants' Enthusiasm for Oil Production

In order to ease the conflict between production and demand for edible oil, around the time that the central government handed down the "Eight Edible Oil Proposals," the state took other actions to encourage peasant enthusiasm for producing and selling oil-bearing crops. Beginning in 1959, it instituted awards for sales in overfulfillment of edible oil monopoly purchase quotas. Beginning in 1961, it instituted a policy whereby production brigades that grew mostly oil-bearing crops were insured having the same amount of grain to eat as nearby surplus grain brigades. It also instituted an award sale policy for the purchase of edible oil. In 1960, and again in 1961, it increased purchase prices for edible oil, the increases for the 2 years amounting to 19.3 and 13.3 percent respectively. For a time during 1963, some places permitted exchanges of industrial manufactures as total payment for the purchase of edible oil, as well as the purchase and sale of edible oil at negotiated prices.

In order to increase oil-bearing crop output without encroaching on the existing cultivated land area, beginning in 1959, grain departments acted in concert with other department concerned to launch a mass campaign to get the masses to use small bits of unused land in front and behind their houses to grow castor (a non-edible oil-bearing crop), and sunflowers, prescribing a policy of "the harvest to the tiller." When the masses sold castor beans, they would be given a certain quantity of edible oil as a bonus. In this way, the state got hold of more sources of oil, and the masses also increased their earnings. Results were very good after enactment. Sixty

percent of the castor beans that the state purchased, the masses had grown on odd bits of vacant land. In 1966, nearly 300 million jin of castor beans were purchased nationwide, an all-time high. This not only solved an urgent industrial need for oil, but correspondingly reduced pressures on the supply of edible oil. Furthermore, more than 100 million jin of castor beans were exported.

The key to easing the conflict between production and demand for edible oil lay in increased oil-bearing crop production. In a brief summary delivered at the National Edible Oil Conference that the Ministry of Grain convened, Chen Guodong [7115 0948 2767] placed extreme emphasis on the need for grain departments to work harder on oil-bearing crop production, and the need to bolster "three great viewpoints" (the political viewpoint, the production viewpoint, and the mass viewpoint), to take part in production, and to support production. Thereafter, as the edible oil situation became increasingly serious, grain departments had a deep sense of need to do a good job in oil-bearing crop production. They took the initiative to coordinate with farming and forestry departments to work hard to publicize policies, putting production plans in place, evening out supplies of seeds, improving management, and doing a careful job of harvesting and threshing. Many grassroots level grain departments also set up oil-bearing crop experimental fields, using their personal practice to gain experience, spreading it from a single place to wide areas in order to advance development of oil-bearing crop production. All jurisdictions supported this work, and by the late 1970's, they had begun these practices themselves.

Thanks to readjustment of edible oil purchase and sales policy as well as putting into place of various economic measures, taken together with a change for the better in the national economic picture as a whole, the edible oil situation also increasingly took a turn for the better. After 1962, production of oil-bearing crops began to rally gradually, and by 1965, national edible oil output revived to a fairly good level—nearly 3.2 billion jin. In the 4 years spanning 1962 through 1965, the state council issued three separate notices, which gradually restored the edible oil ration in large- and medium-sized cities to 5 shiliang, and in county seats and market towns to 4 shiliang. During the 3-year period of readjustment from 1963 through 1965, the country realized an annual surplus of 270 million jin of edible oil, and in 1964 the importation of oil for rations was halted. In 1965, the export of edible oil again revived to nearly 300 million jin. In rural areas, oil retention was 2.7 jin per capita, and for city and town residents, the oil ration was 4.8 jin. By the end of 1965, not only had the turnover of edible oil in storage revived to the highest level attained during the First 5-Year Plan period, but a certain amount of reserves were accumulated.

The rapid improvement in the edible oil production and sales situation resulted, in a fundamental sense, from the eight character policy of "readjustment, consolidation, replenishment, and improvement" that the CPC Central

Committee had put forward. Taken together with other economic measures, a turnaround occurred in the entire rural situation, promoting the revival and development of agricultural production. Speaking about agricultural product procurement problems at that time, State Council Deputy Premier Li Xiannian said in 1964 that, during the first several years, supplies of many important commodities could not meet demand, and the gap between two markets and two sets of prices was very large. For a time, a situation of exchange of unequal value occurred between the state and the peasantry. It was under these circumstances that, on CPC Central Committee instructions, some emergency actions were taken to increase purchase prices for products and institute award sales. While upholding monopoly purchases and assigned procurement for the most part, barter purchases, purchases and sales at negotiated prices, and so on, were instituted for some of the surplus agricultural products remaining after fulfillment of quotas. After adopting these measures, it should be said that exchanges between the state and the peasantry were mostly exchanges at equal value. This demonstrated that the laws of value and the role of exchange at equal value positively could not be neglected in the purchase of edible oil. Unfortunately, the turn for the better in edible oil production and the sales situation achieved through 3 years of readjustment did not last very long, but was again destroyed with the advent of the Great Cultural Revolution.

Section IV: The Edible Oil Production and Demand Situation, and Purchase and Sales Policy During the 10 Years of Turmoil

I: Disruption and Damage From Erroneous "Leftist" Ideology, Oil-Bearing Crop Production Faltering For a Long Time

The national economy suffered serious damage during the period of the Great Cultural Revolution when agricultural production was once again disrupted by erroneous "leftist" ideology. Of all agricultural products, oil-bearing crops were among those that suffered most. Some places onesidedly emphasized "taking grain as the key link," failing to give proper attention to economic diversification, or even pitted the development of oil-bearing crop production against the development of grain production in violation of relevant regulations for planned, proportional development. Consequently, oil-bearing crop production became a weak link in agricultural production. Under the slogan "mass criticism of capitalism," private plots were confiscated, rural country fair markets throttled, and some places even criticized the growing of oil-bearing crops as a "revisionist line" of "letting money take command." In some places, oil-bearing crops that had been planted were destroyed and other crops planted. The peasants' legal right to exchange edible oil and oil-bearing crops for needed means of production and means of livelihood within the limits that policy permitted were also stripped away. This, plus arbitrary and impractical direction, had an adverse effect on peasant enthusiasm for production. During the

early stages of the Great Cultural Revolution, Xinzhou Commune in Yangjiang County, Guangdong Province actively expanded the growing of peanuts, the growing of oil-bearing crops advancing the growing of grain, the output of both grain and oil increasing. The prefecture work committee criticized the commune for caring only about money and not caring about grain. It called for members of the commune by name to make a self-criticism. Similar instances were very numerous. "Until grain exceeds the targets set in the National Agricultural Development Plan, peanuts cannot be considered," and "until grain output exceeds the targets set for the region located between the Huang He and the Chang Jiang, peanuts are not to be permitted." Such slogans showed the situation that oil-bearing crop production faced. Consequently, there was no rise in output. During the 12 years from 1966 through 1977, edible oil production nationwide hovered around the 3 billion mark. Even during the peak output year, output did not reach the highest level achieved since liberation.

With no rise in production, problems were bound to be encountered in making purchases. Every time that state procurement plans failed to be fulfilled, hope was pinned on increased administrative control and closed markets. After the 1971 increase in edible oil procurement prices no changes were made for a long time. Not only this, but the industrial manufactures award sale policy that had proven so effective in the procurement of oil was also abolished in 1969. Shandong Province alone retaining award sales. Obviously, these ways of doing things were completely at odds with the desires and needs of the masses. The mutual affect and the chain reaction caused by some "leftist" methods used in the production and circulation realms dampened peasant enthusiasm for production, and they became increasingly apathetic in their work. During the 10 years of turmoil, edible oil agencies at all levels were retrenched in most places, the force engaged in edible oil work being greatly weakened thereby.

II: The Increasing Sharp Conflict Between Supply and Demand

During the 10 years of turmoil, despite ups and down in edible oil output, the situation as a whole was one of hesitation with no advance. At the same time, the population continued to grow, so the per capita amount steadily declined. In 1966, edible oil output for the whole country was 3.33 billion jin, or 4.5 jin per capita. By 1977, output was 3.32 billion jin, output declining to 3.5 jin per capita. This decline in per capita amount occasioned a series of problems in edible oil distribution: a reduction in procurement, and an increase in sales for a year-by-year adverse balance. Several years before the beginning of the Great Cultural Revolution, a small accumulation allowed the country to get by, but later on the situation went from bad to worse. During 7 of the 9 years from 1968 through 1977, oil in storage had to be tapped, and in ever increasing amounts. In 1969, 170 million jin was taken out of storage, and 330 million jin in 1976. At the end of March 1977, the oil in storage was

less than four months' worth, even less than the lowest storage volume in the numbers of months when there were sales during the three-year period of economic hardship. With the decline in the amount of edible oil supplied to city and country residents, and the apparent inability of the supply to meet the demand, there was no choice but to use oil in storage. Beginning in 1968, some provinces had to lower their oil rations, and by 1976, 13 provinces and autonomous regions had lowered oil rations. Quite a few counties and towns suspended oil supply for one-half year or more. In allocations among provinces, the situation was one of decrease in the number of surplus oil provinces, and increase in the number of oil-deficient provinces. The peak year for outshipments from oil surplus provinces was 1955 prior to the Great Cultural Revolution. In that year, 19 provinces shipped a total of 970 million jin of edible oil. By 1977, the number of these provinces declined to only eight shipping less than 200 million jin. Although the oil ration for residents of Beijing, Tianjin, and Shanghai was maintained, it depended largely on imports. Both the quantity and duration of edible oil imports were greater than during the 3 years of hardship. In many cities, oil was regularly out of stock, and food companies found it difficult to maintain supplies of needed oil. This resulted in poor quality pastry, occasioning a strong reaction from the public. It was also extremely difficult to supply oil for industrial use, so special arrangements had to be made to provide supplies.

III. Actions Taken To Ease the Conflict between Supply and Demand

In view of the foregoing situation, when the state council convened the North China Agricultural Conference in October 1970, it invited delegates from 12 main oil-bearing crop-producing provinces including Shandong, Hebei, Sichuan, and Jiangsu for a special discussion of problems in oil-bearing crop production and distribution. It also issued a brief report calling upon all jurisdictions to pay attention to doing a good job in oil-bearing crop production. Subsequently, during March 1971, and at the end of 1974, the state council convened production conferences—one on cotton, edible oil, and sugar production, and the other on cotton, edible oil, sugar, tobacco, and hemp production—at which plans were laid for oil-bearing crop production. At both the conferences, when Zhou Enlai and Li Xianmin met the conference delegates, they gave very important instructions on the oil-bearing crop production issue, the highlights of which were as follows: Oil-bearing crop production areas have to strive to make a greater contribution. Most production areas have to strive for self-sufficiency, solving the problem of supplying oil for their own needs within a fairly short period of time, if not within 1 year, than 2 or 3 years. In southern mountain regions where oil-bearing crops that grow on trees do not compete for land with grain, more should be done. The south can also grow more rape. Rape provides both oil and fertilizer. The north should also grow rape. The peanut growing area should be kept stable, increasing yields at the same

time. Cotton seed procurement should be intensified, and the cotton seed utilization rate increased.

On the edible oil production and distribution issue, the state council made six decisions when approving and forwarding the cotton, oil, and sugar conference documents in April 1971. The main points were: Fair arrangement of monopoly grain purchase and sales quotas for production areas in which the growing of oil-bearing crops is concentrated, making absolutely sure that commune members' grain rations are no lower than those in adjacent grain growing areas. Following monopoly purchase of oil-bearing crops, an added price bonus should continue to be given for all portions in overfulfillment of quotas. Standards for peasant oil retention should be set by provinces, autonomous regions, and municipalities under direct central government jurisdiction themselves, more being stored when increase in production is large and the contribution great. The policy of buying only, but not selling oil in rural villages should continue to be applied, purchase prices for edible oil and oil-bearing crops should be suitably raised, vigorous efforts should be made to develop production of woody oil-bearing crops, and control over rural country fair trade should be intensified.

The two conferences on cotton, oil, and sugar played a definite role in spurring oil-bearing crop production.

(1) They increased oil and oil-bearing crop purchase prices an average 16.7 percent nationwide. This price rise was not accompanied by an attendant sale price; subsequently, a purchase and sale price inversion for edible oil developed.

(2) They unified the rate of increase for added prices paid for production in excess of procurement quota. An added price for oil purchases in excess of quotas began to be implemented in some places following the 1967 summer grain conference. At that time, a 30 percent added price was set for peanuts and sesame, a 20 percent added price for oil tea seeds, and a 15 percent added price for rape seeds. For cotton seeds and all other oil-bearing crops, the added price was 10 percent. These rates differed very greatly between one place and another, being higher in some places and lower in others. In September 1972, the Ministry of Commerce and the state planning committee jointly handed down a document prescribing a uniform 30 percent price increase for all edible oil-bearing crops without distinguishing variety. This provision remained in force until 1979.

(3) The number of places instituting base figures for oil purchases guaranteed to remain in effect without change for 5 years increased gradually. By the end of the 1960's in order to improve oil purchases, some provinces applied the methods used in purchasing grain; they began to set base figures for edible oil purchases guaranteed to remain in effect without change for 5 years. As

yet, however, there was no uniform provision nationwide. Following the conferences on cotton, oil, and sugar, the number of prefectures applying this method increased gradually. Statistics for 1978 show a total of 26 provinces, autonomous regions, and municipalities under direct central government jurisdiction as having set base figures for edible oil purchases guaranteed to remain in effect for 5 years, the base figures set translating into 1.29 billion jin of oil. After this method was put into effect, the peasants knew what their sales quota was, and this had a definite effect on promoting production.

(4) Some jurisdictions began to use winter fallow land to expand the growing of rape. Grain departments everywhere took the initiative in coordinating with agricultural departments to make concerted efforts to expand rape seed production. Grain departments in Hubei, Hunan, Shandong, and Hebei printed and disseminated propaganda handbooks on expanding rape production, and they convened several on-site conferences to promote this effort. In many places, grassroots grain departments also used their personal experiences in production to help peoples' communes and production teams develop model peasants in raising rape for timely summarization and promotion of advanced experiences. The rape growing area expanded, gradually extending farther northward.

(5) Increased cottonseed purchases. In August 1975, the Ministry of Commerce convened a 16 province and city seminar on cotton seed procurement at Xian at which deputy minister An Faqian [1344 3127 0051] transmitted the spirit of instructions from Li Xiannian on cotton seed procurement. He called upon grain departments in all jurisdictions to take the initiative in coordinating closely with supply and marketing departments to good job in the joint procurement of cotton seeds. In order to forestall peasants from applying cotton seeds directly to fields as fertilizer, thereby wasting oil, grain departments in Santai, Sichuan Province, Nanyang, and Henan Province ran comparative experiments on using cotton seeds versus cotton seed cake residues to fertilize fields to convince the peasants. This was remarkably successful in increasing the cotton seed commodity rate.

Overall, implementation of the spirit of the two conferences on cotton, oil, and sugar was a definite success in keeping oil purchase and sales policies stable, enabling studies in oil procurement to proceed normally in order to make the necessary efforts to revive and develop oil-bearing crop production. Nevertheless, because the disruption caused by erroneous "leftist" ideology had not been eliminated from agricultural production, no major readjustments of rural economic policies had been made, and energetic actions were lacking for fully arousing peasant enthusiasm for production, despite a temporary turn for the better in oil-bearing crop production, the overall oil shortage resulting from small purchases and large sales that had built up month after month could not be changed.

IV: Favorable Turn in Edible Oil Situation Following Smashing of the Gang of Four

In order to moderate the edible oil shortage and solve the edible oil problem in a fairly comprehensive way, during the first year following the smashing of the "gang of four" (i.e., in 1977), the Ministry of Commerce and the Ministry of Agriculture sent a report to the State Council titled, "Views on Vigorous Development of Oil-bearing Crop Production for Earliest Improvement of Edible Oil Supply." The State Council concurred in the report from the two ministries, promptly approving and forwarding it for implementation. This document stated forthrightly that the oil problem had reached the point where something had to be done, and that the primary way to solve the edible oil problem lay in development of production. A policy of depending on domestic resources and self-reliance had to be followed. More oil-bearing crops would have to be grown simultaneous with the expansion of grain production; there must positively be no consumption of imported oil. The State Council called upon all provinces, autonomous regions, and municipalities under direct central government jurisdiction to reach the highest per capita level of oil output for their jurisdiction by 1980. At the same time, it called upon all jurisdictions to grow more rape. Northern areas were to make fullest use of land allowed to lie fallow during winter and early spring for active expansion of the growing area, and southern areas were to expand the three-crops system, growing an oil-bearing crop and two crops of rice, and expand growing of the oil-bearing crop by 20 percent each year. All jurisdictions were also required to operate oil-bearing crop commodity bases, relying primarily on their own efforts, the state providing appropriate support. All provinces and autonomous regions were also to support actively the placing of all required materials under state, province, or autonomous region plan. The document provided instructions on edible oil purchase and sales policy, on the opening of new sources of supply and curtailment of consumption, as well as the bolstering of government agencies concerned with edible oil. It called upon all jurisdictions to take firm control in order that oil-deficient areas achieve self-sufficiency with some surplus, self-sufficient areas to contribute, and oil-surplus areas to make a greater contribution. The spirit of these state council instructions provided great impetus to the improvement of work having to do with edible oil, bringing about a change in the edible oil situation. In south China, rape made a fine crop for planting ahead of paddy. Rape seed cake residue could be used to fertilize the land to help boost grain production. In north China, rape could be grown on large tracts of winter fallow land. The selection of rape as the salient for development of edible oil production was consistent with China's circumstances of a large population relative to available land, and the need to expand output of both grain and edible oil. With a change in the entire rural political and economic situation, and thanks to the experiences accumulated during the previous several years in harvesting bumper crops of both grain and oil from the expansion of rape growing, as well as the

hardship of having had little oil to eat for many years, people became increasingly confident about growing more rape. Consequently, they began to increase its cultivation. Thereafter, output of rape seed saw continued enormous growth.

At the same time, oil-bearing crop production regions began to bend efforts to the building of oil-bearing crop commodity production bases. They selected key counties for such bases, spelled out the tasks to be performed, and drew up plans. Many regions revived the fertilizer award sales policy for oil purchases that had been halted during the period of the 10 years of turmoil; some provinces offered base counties other preferential treatment, and the state provided needed support in the form of materials. During the fourth quarter of 1977, the state allocated 160,000 tons of specially blended fertilizer to support oil-bearing crop production in 10 major oil-bearing crop producing provinces including Shandong, Hebei, and Jiangsu. Beginning in 1978, it adopted a system whereby 2 jin of chemical fertilizer was made available for every jin of edible oil shipped out of the province. In addition, from 1978 through 1980, the state paid for 5,000 oil crushing machines each year as a means of transforming the native crushing methods used in 14 provinces, including Sichuan, Guizhou, Hubei, Hunan, and Jiangxi in order both to reduce the intensity of labor required for processing using native methods, and to increase the oil outturn rate. In humus seed producing areas, the state provided preferential treatment in the form of farm tractors to help develop humus production. These actions were very beneficial in stirring the enthusiasm for production of local governments and peasants. After issuance of the state council document, edible oil agencies that had been abolished during the 10 years of turmoil began to be revived little by little.

In order to support production of woody oil-bearing crops, the Ministry of Finance allotted a 15 million yuan allowance for the expansion of tea oil and tung oil production in 1976. The Ministry of Agriculture and Forestry, and the Ministry of Grain were jointly in charge of these disbursements. In 1977, the Ministry of Finance again set aside 15 million yuan to be disbursed over a period of time, 3 million yuan being allotted each year beginning in 1977 and ending in 1981. These allowances to support production began to be recouped in 1982 for recycling. This state financial support played a fine role in advancing increases in the production of woody oil-bearing crops. The Hunan Provincial Department of Grain also coordinated actively with provincial agriculture and forestry departments in the operation throughout the province of more than 600 oil-bearing crop production bases totaling 1.91 million mu. They applied experiences gained at single sites to wide areas in order to advance production. In this way, most of the mountain oil tea growing areas, which had lain uncultivated for a long time, were reclaimed, laying a fine foundation for a future increase in oil tea production. Other major woody oil-bearing crop growing provinces also did a lot of work in this same regard.

Remarkable achievements were also made in the opening up of sources of oil supply, curbing consumption, and using substitutes. One specific thing done was to press oil from rice bran, which attracted serious attention everywhere and advanced very rapidly. In 1971, the whole country produced only 15 million jin of rice bran oil. By 1979, output increased to 100 million jin in a 6.6-fold increase. Progress was particularly fast in Hunan and Guangxi provinces. The extraction of oil from corn germ began from scratch to reach more than 20 million jin in 1978. During this same period, advances were also made in the conservation and substitution of oil used for industrial purposes. Quite a lot of experience was also gained in processes using substantial amounts of oil including soap making, paint making, casting, and grease manufacture. In November 1978, the Ministry of Commerce convened in Shanghai a seminar attended by delegates from 10 provinces and cities on the conservation and substitution of oil for industrial use, which summarized and exchanged experiences. Statistics from nine provinces and cities that sent delegates to the meeting showed a total saving or substitution, through various means, of 86 million jin of edible oil in 1977, or approximately 15 percent of the total amount of edible oil used for industrial purposes for that year. Not only did this ease the shortage of edible oil, it also advanced technological innovation in enterprises.

It was not until 1978 that the edible oil shortage of the 10 years of turmoil began to take a turn for the better. It was in this year that the country's edible oil output reached 4.13 billion jin, an 810 million jin, or nearly 25 percent, increase over 1977. Such a large amount and rate of increase were unprecedented, creating an all-time high for post-liberation edible oil output, and beginning to turn around the stagnation in production that had endured for many years. As output increased, both state procurement and outshipments exceeded plan quotas. Some areas revived fixed oil rations, and the market supply situation also improved.

Section V: Edible Oil Distribution Enters a New Historical Period I. Enormous Change in the Edible Oil Situation as Output Doubles

In 1978, edible oil output broke the 4 billion jin mark for the first time, edible oil work thereby beginning to emerge from a difficult situation. Nevertheless, edible oil production varied greatly from region to region, and except for rape seeds, production of other varieties of oil-bearing crops had yet to reach the all-time high. Furthermore, in

one-third of all areas, the edible oil ration had yet to be revived. There was a lot of "catching up" to do, and the conflict between production and demand was still very conspicuous. Following the 3d Plenary Session of the 11th Party Central Committee, the edible oil situation began to take a fundamental change for the better, indicated primarily by a tremendous increase in edible oil output year after year, and a rise in the per capita amount. In 1981, edible oil output stood at 7.32 billion jin, up 120.5 percent from 1977. The doubling of output within 4 years greatly brightened the edible oil picture. By 1984, edible oil output rose again, this time to 9.46 billion jin, the amount per capita reaching 9.2 jin in huge increases over 1977 of 184.9 and 161.5 percent. It had taken slightly more than 20 years for edible oil output to go from slightly more than 3 billion to slightly more than 4 billion jin, but it had taken only 6 years for it to rise from 4 billion jin to more than 9 billion jin, an unprecedented speed of increase.

The turn around in the edible oil situation also showed up in marked improvement in the edible oil purchase and sale situation. As edible oil output increased, state edible oil purchases overfulfilled the plan year after year. Purchases in 1981 were more than three times the 1977 figure. Although 1984 purchases were slightly lower than in 1981, the amount of purchases at negotiated prices increased very greatly. As the amount of edible oil in the hands of the state increased, the amount of supply increased as well. The 13 provinces and autonomous regions that had reduced oil rations during the 10 years of turmoil completely revived them by 1981, and most provinces also increased the standard for oil ration supply to residents of county seats for a further narrowing of the ration gap among large, medium, and small cities. After 1981, the state increased the additional amount of oil supplied each year for the lunar New Year and the national anniversary. The additional oil provided on these holidays was offered at the state-set monopoly sale price, which was lower than the monopoly purchase price, the state subsidizing the price differential and the handling charges. Not only was there an increase in the amount, but also in the varieties of edible oil. It was possible to sell both oil and oil-bearing crops, and to sell both unrefined or refined oil. The markets were lively and the people were satisfied. Actual sales figures for 1984 showed a 10.3 jin per capita oil consumption for the non-agricultural population in cities and towns, up more than 70 percent from 1977. A corresponding rise also occurred in the level of rural edible oil consumption. (See Table 12.)

Table 12. Comparison With 1977 of the Edible Oil Purchase and Sale Situation in 1981 and 1984

| Year | 1977 | Units: 100 million jin | | | |
|----------|------|------------------------|-----------------|--------|-----------------|
| | | 1981 | | 1984 | |
| | | Output | Percent of 1977 | Output | Percent of 1977 |
| Output | 31.2 | 73.2 | 120.5 | 94.6 | 184.9 |
| Purchase | 19.3 | 43.7 | 228.6 | 40.8 | 216.8 |
| Sales | 18.4 | 33.3 | 81 | 49.2 | 167.4 |

The improvement in the edible oil situation also showed up in an increase in the number of oil-surplus provinces, more out-shipment than in-shipment of oil, and improved storage capacity. At the height of the edible oil shortage during the 10 years of turmoil, there were only eight oil-surplus provinces, which shipped less than 200 million jin. By 1982, the number of oil-surplus provinces had grown to 17, and the amount of oil they wanted to ship out greatly exceeded their ability to accept in-shipments. The country's turnover of edible oil in storage, as of the end of 1978, had still not reached normal rational requirements, but after 1979, as receipts of oil exceeded expenditures year after year, the amount of oil in storage grew year after year. By the end of 1981, both the amount of edible oil in storage and state reserves reached an all-time high. Along with an increase in edible oil storage capacity, very great changes occurred in edible oil exports. During the 10 years of turmoil, when the domestic edible oil deficit could not be remedied, not only was no edible oil exported but some imported oil was consumed. However, after edible oil exports and imports began to offset each other in 1981, exports became greater than imports.

The main reason for the enormous change and the year-by-year improvement in the oil situation was the implementation of a series of CPC Central Committee rural plans and policies following the 3d Plenary Session of the 11th Party Central Committee as follows: Promotion of output-related systems of contract responsibility, which aroused peasant enthusiasm for production; the correction of "leftist" errors in agricultural production, the peasants being able to farm by suiting general methods to specific circumstances; the enormous increase in grain output coupled with the importation of some grain, which readjusted the structure and pattern of agriculture, thereby enabling the rapid development of cash crops such as oil-bearing crops, and another readjustment of the purchase price of edible oil and oil-bearing crops in 1979, the price rising 25 percent, and a raise from 30 to 50 percent in the added price paid for state purchases in excess of quota. These measures were all direct reasons for the rapid development of oil-bearing crop production. Simultaneous with tremendous changes in the objective situation, needed readjustments were also made in operating plans and purchase and sales policies, the management system, and administrative methods regarding edible oil, resulting in further consolidation and development of a fine situation.

II: The "16 Character" Policy Proposal and the Circumstances of Its Implementation

Following the 3d Plenary Session of the 11th Party Central Committee, oil-bearing crop production increased tremendously. Of all the edible oil crops, rape increased production fastest. In some rape growing areas in the south, the relative lack of basic facilities such as storage space and processing equipment made it impossible to satisfy at once the masses' need to sell rape, so a situation of "difficulty selling oil" occurred. Along with the tremendous increase in rape were new changes in the

kinds of edible oil available, rape seed oil as a percentage of total output increasing from the previous approximately one-fifth to more than one-third, surpassing peanut oil to take first place. Sunflower seeds, which had formerly been regarded as a minor oil-bearing crop, and which was very rarely used for pressing oil, also outstripped sesame oil in the percentage of total oil output because of the rapid increase in its production. Consequently, in order to sustain production, not only was it necessary to do good work in purchasing oil-bearing crops, but efforts also had to be made to expand markets for the varieties whose production had increased so greatly. Peanuts, sesame seeds, and soybeans were traditional Chinese export commodities greatly welcome in international markets. Although output of peanuts set an all-time record in China in 1980, there was still not enough to satisfy all the international demand. Consequently, by selling more rape oil and sunflower oil (or seeds) domestically, peanuts, sesame, and soybeans could be offered for export, earning more foreign exchange. At 1981 international market prices, the export of 1 ton of shelled peanuts could earn enough foreign exchange to buy between 5 and 6 tons of wheat. Thus, oil could be exported in exchange for grain imports, enlivening the import-export trade. In view of this situation, the State Council instructed that more work should be done in buying and selling oil than in buying and selling grain, a good job done of commodity flow. During the national summer grain conference in May 1981, an analysis of the oil situation was made. Premier Zhao Ziyang personally heard reports on the oil situation and provided important instructions. Vice Premier Yao Yilin [1202 0181 2651] pointed out that the policy for edible oil work was "support production, actively purchase, expand sales, and organize exports," (hereinafter termed the "16 Character" Policy). Simultaneously it was necessary to "enliven edible oil dealings under the principle of maintaining monopoly purchase and monopoly sales."

The guiding thought of the "16 Character Policy" was to enliven commodity flow through active efforts in the circulation area that accelerated the development of commodity production. In the past when things were scarce, purchases depended mostly on production, and sales depended on purchases. Now that things were plentiful, purchases and sales had to be organized actively to accelerate the commodity flow. Production decided flow, and flow had a tremendous reaction on production. The more developed the commodity economy, the more marked this reaction. Proposal of the "16 Character" policy played an extremely important role in unifying understanding, emancipating thinking, strengthening leadership, doing a good job, and consolidating and developing the very fine edible oil situation.

Following the enunciation of the "16 Character" policy, the State Council issued a document that grain departments was put into effect in the following several ways:

First was to increase buying. In order to solve the problem of "difficulty selling oil," grain departments in

all jurisdictions took various actions during the busy season in oil procurement to increase the number of network outlet points, arrange to make purchases, tour a circuit making purchases, and promptly organize movement of purchases into warehouses. The broad masses of staff members and workers in grassroots level grain departments displayed their traditionally fine work style, working extra shifts and putting in longer hours to satisfy the peasants' desire to sell their crops. In order to augment and improve oil storage facilities everywhere, in 1981 the Ministry of Grain allocated 1 million new drums with a 360 million jin capacity to main rape producing provinces including Sichuan, Guizhou, Anhui, Hunan, and Zhejiang. Each year thereafter, large numbers of oil drums were provided to oil-bearing crop producing provinces. At the same time, beginning in 1981, the Ministry of Finance allocated a certain amount of money to grain departments to increase edible oil storage, processing, and refining facilities. In 1981, it allocated 30 million yuan, and from 1982 through 1984, it annually allocated 15 million yuan, building an oil tank storage capacity of 710 million jin in 4 years. Thanks to these actions, the problem of "difficulty selling oil" was gradually solved.

Second was changes in the way of doing business to expand the sale of rape seed oil. By way of enlivening the edible oil business, at the end of 1980, Beijing and Tianjin began the trial sale of semi-high price oil. The price of this oil was lower than that of oil at the negotiated price, and a little higher than the monopoly sale price; thus it was called semi-high priced. The result of the trial sales was that the masses were somewhat satisfied. The enunciation of the "16 Character" policy further clarified the importance of expanding sales. Using the summarization of experiences in Beijing and Tianjin as a basis, in August 1981 the Ministry of Grain issued "Provisional Methods for Supplying Semi-High Price Oil," which provided that, in principle, semi-high price oil was to be provided only to the residents of cities and industrial and mining areas at the county level and above, to industrial and commercial firms, and to collective food units. The only kinds of oil supplied were rape seed oil and sunflower seed oil. Thereafter, the supply of semi-high price oil spread gradually throughout the country, the amount supplied gradually increasing until 1984 when 1.31 billion jin of semi-high price oil was sold nationwide. Semi-high price oil was a supplement to plan supply, and was an important source of oil for city and town residents' outside the grain ration, which improved the people's consumption situation. In view of the oil supply situation in the country, acting within capabilities could enliven business and speed up commodity flow without increasing the fixed ration standard. It was also a rather safe and sure method.

Third, was working to substitute varieties of oil to enliven the import-export trade. When oil was in short supply, there were usually too many problems to tackle in planning domestic and foreign sales. There was no leeway in choosing varieties. After 1980, when things were plentiful, conditions were ripe for changing this state of affairs. Guided by the "16 Character" policy, grain departments increased availability of rape seed oil and sunflower seed oil for sale domestically, doing all possible to reduce the quantity of peanuts, sesame seeds, and soybeans used for oil pressing in order to make fullest use of the utility of all kinds of edible oil-bearing crops to increase economic returns. They exported these high foreign exchange earning varieties. As a result of this substitution of types of oil, the linking of domestic and foreign sales, and overall consideration and all-around arrangements, both the varieties and amounts supplied for export increased. In 1983, 470 million jin of edible oil (including oil-bearing crops converted to oil terms) was exported, making this the highest edible oil export year since the 1950's. The recipients of the exports included not only the previous international market, which was maintained for the most part, but also quite a few newly added trade partners. In order to stir the two positive attitudes, [the positive attitude of the city in supporting the countryside, and the positive attitude of the country in self-reliance], in May 1981, the Ministry of Grain also proposed an appropriate split between the central and local governments of foreign exchange earned through the export of edible oil outside plan, which the state council approved for implementation.

Reduction in the quantity of huma oil imports was another achievement gained from the substitution of varieties. Huma oil is both an edible oil and a fine oil used for industrial purposes; furthermore, the production of certain industrial manufactures is impossible without huma oil. Since China did not produce enough huma oil to satisfy both consumption and industrial needs, each year some huma oil had to be imported for industrial use. Once a turn for the better occurred in the edible oil situation, and the export of edible oil resumed, the state council proposed no further importation of huma oil. In order to respond to this requirement, grain departments sold more rape seed oil to huma producing areas in order to get increased huma oil shipments from them. At the same time, they provided increased subsidies to huma producing areas to purify and ship huma oil. After a period of work, huma shipments reached 30 million jin in 1983, more than one and one-half times again the 1981 figure. Imports of huma oil fell by a corresponding 10 million jin for a foreign exchange saving of between \$3 million and 4 million.

Table 13. Semi-high Price Oil Sales—1981-1984

| Year | 1981 | 1982 | 1983 | Units: 100 million jin |
|---|------|------|------|------------------------|
| Amount of Edible Oil Sales | 33.4 | 42.8 | 42.4 | 49.2 |
| Parity Price Sales | 29.9 | 36.1 | 32.3 | 36.1 |
| Semi-high Price Sales | 3.5 | 6.7 | 10.1 | 13.1 |
| Semi-high Price Sales as a Percentage of Parity Price Sales | 11.7 | 18.6 | 31.4 | 36.4 |

III. Readjustment of Procurement Policy To Meet the Needs of the Situation

Following the 3d Plenary Session of the 11th Party Central Committee, constant readjustments were made to edible oil procurement policy. Acting in the spirit of "policy relaxation" during 1979 and 1980, and taking note of problems in past oil-bearing crop production and monopoly purchase work, all jurisdictions suited general methods to their own situation in adopting measures to improve relations between the state and the peasants. Some readjusted the percentage of state purchase and peasant retention, increasing the amount the peasants kept. Some increased the point at which purchases began (i.e., the limit on the amount of edible oil per capita, purchased beginning to be figured on amounts above the limit), or they canceled the ceiling on amounts of oil that rural villages could retain, permitting the peasants to keep somewhat more. Not long after reviving the policy of reward sales for oil purchases, some places raised award sales standards. Some set different grain consumption levels for individuals on the basis of their edible oil contribution. Some places used several of the foregoing methods at concurrently. These measures were taken with the personal welfare of the peasants in mind; consequently, they greatly encouraged peasant enthusiasm for the production and sale of edible oil.

As oil-bearing crop production steadily increased, and with the advent of a new situation following the output-related systems of contract responsibility, the state again made some extensive readjustment of edible oil purchase policies in 1983, the two most important aspects of which are provided below.

(1) Change in the way of figuring prices when purchasing edible oil. During the early 1980's, most jurisdictions followed the monopoly purchase quotas guaranteed to remain without change for several years, which were first instituted during the 1970's, whereby an additional price was paid for amounts in excess of a base figure. Since quotas were fixed, the price for the extra amount sold was preferential in order to spur production. However, set procurement base figures had not been readjusted for a long time. They were unbalanced and very unfair. Since the great rise in oil-bearing crop production during the 1980's, in particular, the problem was even more conspicuous. Because monopoly purchase base figures were high in old oil-bearing crop production areas, the percentage of excess procurement there was small, so they received little added price money. Because

monopoly purchase base figures were low in new oil-bearing crop production areas, the percentage of excess procurement there was large, so they received a lot of added price money. Thus, a disparity in earnings occurred between one area and another, and between one commune or production brigade and another; there was an unequal sharing of weal and woe. Furthermore, after output-related systems of contract responsibility were instituted, thousands upon thousands of households replaced the collective as sellers. This meant not only a great increase in the amount of procurement work to be done, but outputs were also difficult to verify. The existing body of methods for calculating output, amounts to be purchased, and amounts to be kept by the peasants also lost their validity. As a result of these circumstances, procurement methods had to be correspondingly readjusted. In order to do this, beginning in 1981, the Ministry of Grain, as well as grain departments (or bureaus) in major oil-bearing crop producing areas, organized work teams to make many grassroots surveys in which they listened to a wide range of views from all quarters. In 1982, a readjustment plan proposed under the leadership of deputy minister Zhou Kangmin [0719 1660 3046] was presented for discussion and study to the conference of grain department (and bureau) directors from all over the country. It gained almost unanimous support. Finally, following state council approval, the existing fixed procurement base figures used in the purchase of edible oils were abolished in 1983 to be replaced by the calculation of price at a fixed percentage. Generally, the price was calculated according to an "inverse 4:6 ratio," with slight variations for different varieties. In addition, the calculation of price at a fixed percentage for sunflower seeds was done only in major sunflower seed producing provinces. In areas of dispersed production, they were bought and sold at negotiated prices. Using the "inverse 4:6 ratio," the state bought all edible oil or oil-bearing crops that the peasants offered for sale, no matter the amount, 40 percent of it at the monopoly purchase price, and 60 percent of it at the excess procurement price. When the summer crop of rape seeds was purchased in 1983, a plan control figure was used. All purchases within the control figure were figured at the "inverse 4:6 ratio"—all purchases outside the control figure were purchased at the monopoly price. By the time of the 1984 summer oil harvest procurement, the control figure was canceled as a result of a decline in the area planted to rape, all purchases being paid for at the "inverse 4:6 ratio" whether inside or outside plan. Under this fixed percentage method of

calculating prices, the policy was clear, responsibilities were fair, and procedures were simple. The method was well accepted by the broad masses of grassroots level cadres and peasants.

(2) Reduction of monopoly purchased varieties to begin multiple channel buying and selling. In order to increase commodity production and get a good circulation of commodities, on 2 January 1983, the CPC Central Committee proposed readjustment of the purchase and sale policy for agricultural by-products in connection with the publication of a notice titled, "Various Problems With Current Rural Economic Policy." This notice also provided that, "it is necessary to apply monopoly procurement and assigned procurement to important agricultural by-products, but not to too many kinds of them." In July 1984, the Ministry of Commerce together with the State Restructuring of the Economic System Commission, and the Ministry of Agriculture, Animal Husbandry and Fishery proposed the following in a report to the State Council titled "Doing a Better Job of Rural Commodity Flow": Reduce the number of monopoly purchase and assigned purchase varieties, and control only peanut, rape, and cottonseed oil. The state council approved and forwarded this report. In actual practice, many provinces grew only a single kind of oil-bearing crop. Although none of them might be included among the three varieties named above, the province still had to continue monopoly purchase in order to solve its oil consumption problem. Some methods of buying and selling oil through multiple channels were basically the same as those used for grain. During the period when multiple channel dealings were permitted, such dealings were allowed in 1983 only after a county had fulfilled its monopoly purchase and excess procurement quotas. In 1984, the regulations were liberalized to permit such dealings simultaneous with state monopoly purchases.

IV: Reform of the Edible Oil Management System to Stir Local Enthusiasm

During the 1950's, a management system was instituted for edible oil that provided for the allocation and transfer of oil when a difference between purchases and sales occurred. Under this system, oil purchase and sale plans of all provinces, autonomous regions, and municipalities under direct central government jurisdiction were centrally ratified by the central government. When there was a surplus after offsetting sales against purchases, an outshipment quota was provided for; when purchases did not offset sales, an in-shipment quota was planned. Later on, overall planning became difficult because of the shortage of oil, so in 1961, the "Eight Oil Proposals" explicitly provided that the central government was to be responsible only for Beijing, Tianjin, and Shanghai, as well as for exports, supply to the armed forces, and necessary reserves. It would only make some allowances for individual genuine hardship areas. In order to insure fulfillment of central government quotas, oil-surplus provinces were required to institute contracting of quotas to be sold to the state. However, since

oil-bearing crop production was very inconsistent, making it very difficult to set outshipment quotas for oil-surplus provinces, the quotas were negotiated once each year. Each time there was an oil shortage, it was in the planning of allocations and transfers of edible oil among provinces and municipalities that the thorny issues showed up first. As the edible oil situation turned for the better during the 1980's, everyone from top to bottom felt the necessity to institute the contracting of allocation and transfer in order to arouse local enthusiasm to the fullest. Thus, during the national grain conferences of 1980 and 1981, this matter was repeatedly discussed, and it was agreed to institute the contracting of allocation and transfer of peanut outshipment quotas in Shandong Province beginning in 1980, the system guaranteed to remain unchanged for 3 years; and to institute the contracting of allocation and transfer of rape from Sichuan Province beginning in 1981, guaranteed to remain unchanged for 5 years. In addition to the contracting of outshipments, quotas for the exchange of grain and oil were agreed upon for the two provinces. After 1981, very great changes occurred in the allocation and transfer situation, more outshipments and fewer inshipments being required. As a result, no areas other than Shandong and Sichuan set up such agreements.

V. New Tasks Under New Circumstances

To summarize the foregoing, in the space of a few short years following the 3d Plenary Session of the 11th Party Central Committee, the advances made in edible oil work were heartening. However, in terms of needs for development of the entire national economy, the task of further developing commodity production of oil and getting a good commodity flow was an extremely daunting one. Under the new circumstances, continued diligent and conscientious efforts to do a good job were necessary in the spirit of "Decisions on Economic System Reform" of the 3d Plenary Session of the 12th Party Central Committee.

(1) Further acceleration of the development of oil-bearing crop production: Although edible oil output in 1984 was the highest since the founding of New China, it was still lower than the world level in per capita terms. In terms of edible oil consumption, despite the increase, supply still did not satisfy the ever increasing demands of the masses, nor were all varieties available. With the development of the livestock feed industry and the food industry, and the invigoration of international trade, the trend was toward steady increase in the demand for grain from all quarters. Therefore, there certainly was not over-production of oil-bearing crops, instead, continued efforts had to be made to bring about new development. At the same time, the mix of varieties had to be made more rational in order to meet both domestic and foreign market needs. By way of spurring further development of oil-bearing crop production, state-owned businesses had to use their function to the fullest, organizing the commodity flow of edible oil, and providing all kinds of

services to the peasants in advance, during, and after production to help further development of oil-bearing crop production.

(2) Suiting general methods to specific circumstances for gradual production of fixed contract procurement: Following rural economic system reform, the CPC Central Committee repeatedly proposed an expansion of market regulation, under guidance of state plan, to enable agricultural production to meet market demands, thereby further invigorating the rural economy. It was in this spirit that the state council ruled in 1985 that: the purchase of edible oil-bearing crops had to be gradually liberalized by variety and by area. The rape seed procurement policy already publicized to the peasants would change in 1985, but was to continue to be carried out. For other oil-bearing crops, those places having requisite conditions could institute fixed contract procurement. This was a new task. Putting the agricultural commodity contract system into effect meant providing information to the peasants, guiding the peasants in overcoming ill-advised actions in production and the circulation of commodities, the better to meet the needs of the socialist planned economy. Since there were many kinds of oil-bearing crop production, and since production differed from place to place and between one variety and another, the speed of increase in production also differed. When instituting fixed contract procurement, it was necessary to take into account the specific circumstances in each area, and not act with arbitrary uniformity. The overall spirit was that the state would continue to control needed material strength following liberalization. It would also take an active part in market regulation, applying economic techniques and methods as changes in the market supply and demand situation required, buying up or dumping commodities in order to even out prices. It would strengthen market control and supervision to avoid great ups and downs created by the blind operation of market forces.

(3) Adapting to the new situation, completely planning edible oil supply: Following proposal of the "18 Character" policy for edible oil supply work in 1981, marked changes occurred in both the level of consumption and the make up of consumption. Edible oil consumption increased from the somewhat more than 20 billion jin of the 1950's to nearly 50 billion jin in 1984, for a 2.5-fold increase. The percentage of negotiated price transactions increased very rapidly, negotiated price sales (including semi-high price sales) in 1984 accounting for more than 40 percent of total sales volume. In this situation of rapid increase in sales volume, city and country edible oil consumption increased; however the level of city and countryside consumption was still not high.

These changes had a great bearing on thinking about further edible oil purchase and sales policies, as well as the planning of supply work. As production increased, and as the people's standard of living rose, an increase in edible oil sales was both inevitable and rational. It was also inevitable that in the total volume of sales, more oil would be sold at negotiated prices while the amount of

sales at parity price would be controlled. This could both remedy the shortage of supply for rations without increasing state financial subsidies, and could also pave the way for future abolition of fixed rations. Increasing the amount of oil sold at negotiated prices, and increasing the supply of edible seeds provided the people with more vegetable fat and protein while simultaneously making market supply rich and varied. Practice showed this to be just what the masses wanted. The disparity between city and countryside edible oil consumption was an irrational situation inherited from the old society. Up until the 1980's, this situation had to be acknowledged because of the oil shortage. After the 1980's, however, with the fundamental turn around in the edible oil situation, this disparity gradually narrowed. Once the supply of edible oil increased, kind and quality of oil rather than amount of oil became the general concern of consumers. Thus, state-owned businesses had to pay attention to improving the quality of edible oil, increasing the number of grades and kinds, insuring quality, and to doing all possible to accommodating the masses in the way of doing business.

Edible oil used first for eating and second for other uses: Edible oil was a necessity in the people's daily life. Its supply had to be assured. The supply of non-edible oil had a bearing on production in many, many industrial sectors. It was no less important than the supply of edible oil. Furthermore, the amounts supplied were very large. In addition to using all non-edible oil in industry, each year the state had to allocate approximately 400 million jin of edible oil to industry. Thus, in planning for edible oil and non-edible oil, increases in one place meant decreases in another by means of mutual interaction. Across-the-board planning that took all factors into account was the only way of doing a complete job of supplying oil.

(4) Reform of the system, reconciling prices, invigorating commodity flow, and enlivening business: Following the initiation of monopoly purchase and sale of edible oil, control over commodity flow was exercised primarily through administratively designated permanent supply channels in permanent supply areas, with prices being permanently set as well. This closed-management system, which was built when there was a shortage of commodities and a lack of materials, played a major historical role, mostly through administrative control. Nevertheless, it was not beneficial for commodity flow and the invigoration of buying and selling. It was also very ill-suited to prevailing circumstances. A commercial flow system had to be built that was economically diversified, used diverse operating methods, and that employed diverse commodity flow channels in which state-owned businesses played the leading role. Such a reform had been begun, and had scored some initial success. The next step was further invigoration of commodity circulation and further invigoration of business activity.

Invigoration of commodity circulation and invigoration of business activity required that prices be reconciled

This was an extremely important prerequisite. The inversion between purchase and sale prices of edible oil, which began in 1971, was further enlarged following the price readjustments of 1979. Though this action helped stabilize prices without adding to consumers' burdens, it could not reflect costs and returns in the production realm; and in the circulation realm, earnings could not offset expenditures. This hurt the enthusiasm of operating units, with the result that commodity flow was not smooth. In the distribution realm, state financial subsidization of prices grew year by year, and the burden became heavier and heavier. Prices were not straightened out. Although some varieties were removed from monopoly procurement, many specific problems existing between one area and another were difficult to solve. In addition, for edible oil per se, following the initiation of purchases at set proportional prices, prices among various kinds of oil were still not straightened out. After applying to edible oil the proportional pricing methods used for grain, new changes also occurred in price relations between grain and edible oil. Likewise, the difference in price between one kind of oil and another became irrational because of changes in the values used. In the sale of edible oil, monopoly sale prices, semi-high prices, and negotiated prices all existed at the same time. In addition, the removal of restrictions on pork had an adverse effect on sales of edible oil. As a result, market supply and demand relationships could not be reflected accurately and completely. These situations had to be solved by reconciling prices.

Time was passing and history was moving ahead. The realities of the previous 35 years showed monopoly purchase and sale of edible oil was an administrative measure taken under certain historical conditions when the conflict between production and demand was rather sharp, which made such action objectively necessary. The active role that this measure played in assuring supply and supporting economic construction should not be underestimated. However the link between socialism and the monopoly purchase and sale of edible oil was not an inexorable one, nor was it an immutable one. Engels said: "There is a reason for the time and the conditions of occurrence" of all things. "However, because of the new and higher conditions that gradually develop internally, the previous conditions become outmoded and no reason exists for them."¹ Not long after the monopoly purchase and monopoly sales policy was first instituted back in 1954, Chen Yun said the following in a government work report to the First NPC: "Plan supply can only be a temporary measure. Once industrial and agricultural production has increased, the production of consumer goods increasing to the point where it can fully supply market demand, rationing will have to be abolished." This showed that with the steady development of production and the maturing of objective conditions, the monopoly purchase and sale system would be bound to complete its historical mission, and edible oil work would be bound to move on.

Footnote

1. *Selected Works of Marx and Engels*, People's Press, May 1972, First Edition, Vol 4, p 213].

Issue in Procurement of Agricultural Byproducts

40060742 Beijing JINGJI RIBAO in Chinese
31 Aug 89 pp 1-2

[Article by Zhang Nianqun 1728 1819 5028: "Perspective On IOU's"]

[Text] The Dark Cloud Hanging Over One's Head

As the summer procurement of agricultural byproducts draws to a close, officials of the China Agricultural Bank announced that there is a steady supply of funds for the procurement of summer agricultural byproducts and that the "IOU" or "white slip" phenomenon dreaded by the people would largely be avoided.

People Heaved a Sigh of Relief.

But another piece of news from the same source tells us that because of the bumper harvest this fall and the upward adjustment of procurement prices. Procurement loans are expected to amount to 33 billion yuan, 6 billion more than in years past and 5 billion more than projected at the beginning of the year. Moreover, according to the latest study by the Agricultural Bank, over 50 percent of new loans made by the bank this year are stuck in the account settlement stage outside the bank, their repayment much held up. Because the allocation and marketing of such bulk agricultural products as oil and grain takes a long time, 26.37 billion yuan in loans are overdue. Finance departments at all levels owe the Agricultural Bank 5 billion yuan in grain price increases and subsidies to cover policy-related losses.

What is the real fund shortfall for autumn procurement? Nobody knows for sure.

Can we manage to do in fall what we did in summer, thereby largely avoiding handing out "IOU's"? Nobody is in a position to guarantee that.

Fund shortages and IOU's. Like a dark cloud, they hang over the heads of peasants, procurement stations, supply and marketing cooperatives, the Agricultural Bank, and governments at all levels.

Most Important Economic Activity

In this country of 1.1 billion people with a planned commodity economy, what economic activity is more important than procuring agricultural byproducts?

Let us just look at the 100 billion jin of grain to be procured under contract according to quotas and an almost equal amount of grain to be procured at negotiated prices. To pay for this item alone, state banks have to mobilize and spend 35 to 40 billion yuan. When other bulk agricultural byproducts such as cotton, hemp, oil, sugar, and tobacco leaves are included, the amount

involved would be a high 70 to 80 billion yuan. We can say that in China no other economic activity requires the mobilization of such a huge sum of money for such a limited purpose within two seasons.

Clearly agricultural development requires substantial inputs. But even more important is that the commodity value of agricultural byproducts be fully realized. The latter often matters more to peasants. Just imagine that a peasant delivers to the buyer the harvest of a year or half a year of work. If all he gets in return is an IOU, with no set date for redemption, how would he assess his labor?

Putting Money Into Circulation

When a peasant hands over grain, edible oils, cotton, hemp, sugar cane, or sugar beet, there is absolutely no reason why we should not pay hard cash. Paying cash is putting money into circulation, even issuing money. But this kind of putting money into circulation is fully guaranteed by a tangible object. It is completely different from two other kinds of issuing money: the treasury printing money and banks making loans. In the latter two kinds of issuing money, demand is first created, followed by supply. The procurement of agricultural products, on the other hand, creates supply and demand at the same time.

Historically there has never been an oversupply of grain, oil, sugar, and other bulk agricultural products in China. We have never stopped importing grain since the late 1950's. To buy and sell bulk agricultural products in China, particularly grain, oil, sugar, and cotton, is almost completely risk-free. Unfortunately, our planning and market guidance is often inflexible. We need not go too far back in time. Between summer and fall last year, grain prices soared in Guangdong, particularly the Zhujiang delta area, because of natural disasters and an influx of workers. In neighboring Hunan, however, there was much worry over the shortage of procurement funds for agricultural products, making it difficult to complete the procurement and allocation plan (already cut back because of flooding in Dongting Hu.) While the people of Guangdong were already eating Thai rice purchased with U.S. and Hong Kong dollars, Hunan was racking its brains to stop peasants from smuggling grain into Guangdong and punish them. Why did peasants run the risk of being caught and punished and put up with the hardships of going from place to place, carrying 300 to 500 jin of grains on their shoulder poles? To make a small profit. But would it not be better for the state to pocket this profit? Had the state organized shipments from the producing area and put them on the Guangdong grain market, grain prices in Guangdong would have leveled off immediately, recouping large sums of money and saving a huge amount of foreign exchange. Back in the producing area, procurement funds would have become available instantly and there would be no need to resort to handing out "IOU's."

A Law To Be Heeded

However, even in-kind issues are but a last resort. The best thing to do, of course, is to tap the fund potential in the entire circulation arena of agricultural production and enable funds that have been diverted to return to where they belong.

In recent years the Agricultural Bank has been making more procurement loans than planned year after year. Since 1984, the ever-expanding scale of lending has been financed by deposits: savings deposits paying a high interest rate and provisional loans from the central bank, sometimes even funds removed from the market. Both provisional loans and discount funds must be repaid on time, but procurement loans, which make up a massive sum of money, cannot be paid back in time—part of them tied up in produce idling in warehouses, part of them diverted, and a substantial part of them loses not yet made good by the finance departments and price increases.

Funds that have been tied up in produce idling in warehouses and funds that have been diverted must be recovered. Moreover, efforts must be made to avoid any more funds being held up or diverted.

Much of the tying up occurred before the great procurement war. Prices were bid up so much during the unprecedentedly fierce jute and bluish dogbane war 2 years ago that they still appear staggering even today. It is said that the warehouses of some procuring enterprises are still well stocked with the jute and bluish dogbane purchased in the panic buying back then. Much has deteriorated and degraded. In some cases, while the goods are still there, they have become worthless. But since they cannot be sold at the old procurement prices, they continue to sit in the warehouses and incur no losses in the books at least. An influential rural economist once said, "Peasants can only determine next year's production based on this year's prices." Unfortunately, the law revealed in this saying has gained new validity in the wake of the procurement war. Many peasants in several southern and central provinces abandoned grain in favor of growing jute last year. The result: over-production. Although the local governments concerned issued an administrative order instructing the commercial departments to buy up the jute, the prices they paid were pitifully low. The peasants had no alternative but to use the jute to make fires. Recalling this episode today, one still has a lingering fear. This year jute and bluish dogbane overstocking became even worse. Similar procurement wars broke out over cotton, tobacco leaves, wool, silkworm cocoon, and food grains other than rice and wheat.

In contrast, that law remains just as valid. In 1987 northern and eastern China reaped a bumper summer crop. Grain peasants easily fulfilled their contract procurement tasks and other purchase obligations at negotiated prices. However, they had trouble finding buyers for their surplus grain. In the growing area, the market

prices of wheat dropped to 0.27 yuan, 0.25 yuan, even 0.21 yuan, per jin, lower than the state procurement prices. Grain peasants were at a loss as to what to plant next year. Grain fields began spotting different crops and some were abandoned. Next year grain prices soared and the market price of wheat hit 0.70 to 1.00 yuan per jin. Having "hit the jackpot," peasants who had planted grain sold their produce on the market, avoiding procurement at negotiated prices, which had been raised a couple of times. To parody two lines from a poem by Bai Ju Yi—"Last year grain was dirt cheap and everybody was trying to unload it. This year grain is expensive and everybody is scrambling to buy it." A county chief was heard to remark with regret, "Had the state procured liberally last year and sold the grain on the market this year, things would have been much better." To complete their procurement tasks this year, grain departments had no choice but to raise prices. As a result, more money was spent but less grain was procured. When procurement prices go up, allocation and marketing become a problem. There will be losses or overstocking. The principal on loans cannot be repaid, let alone interest.

It seems that to prevent procurement funds from being tied up, wild fluctuations in crop cultivation must be avoided. We should take the initiative to apply the law—"this year's prices, next year's production"—and improve planned guidance. After the summer and fall harvest each year, the state should project the procurement prices for agricultural products next year based on the volume of procurement, reserves, and market supply trends for each crop and immediately announce such projections to peasants. The prices of crops for which surpluses are projected should be lowered appropriately while those for which shortages are projected should be raised. Where supply and demand are more or less equal, projections would be omitted. Peasants would naturally adjust their farming plans accordingly based on the principle of comparative advantage. When the volume of harvest holds steady from year to year, procurement prices would do likewise, as would the fund supply.

The diversion of procurement loans has reached a stage where the value of loans exceeds that of funds. Under existing bank regulations, no less than 30 percent of the working funds of an enterprise must be its own. This regulation has never been enforced when it comes to enterprises procuring agricultural products. Because of policy reasons and other factors having to do with operational mechanisms, these enterprises have little working funds. According to a study on 20,000 such enterprises in 27 provinces, municipalities, and autonomous regions, the total value of agricultural products in stock falls short of that of the loans issued to these enterprises by the Agricultural Bank by more than 10 billion yuan. The working funds of these enterprises thus amount to a large negative number. Where has the money gone? Besides that portion taken up by account settlement departments, the rest has been diverted by the enterprises to buy equipment and cars and build houses.

Traditionally rural supply and marketing agencies and grain departments have had little self-accumulation capacity. Grain departments, in particular, have had to survive on government subsidies year after year. But business must be expanded and working conditions and their workers' livelihood must be improved. So there are times when these enterprises could not resist the temptation to spend the procurement loans. After all, once the loans are issued to the enterprises, the power to dispose of them also changes hands.

It has been suggested that the amount of loans to be issued be made dependent on the amount of agricultural products procured. One available option is this: During the procurement season, the bank should operate jointly with grain and supply and marketing enterprises. Agricultural products are weighed and checked at the procuring station. Peasants collect payments from the bank by producing their receipts and payment certificates. The accounts department would then immediately charge it to the account of the appropriate grain and supply enterprise. Next, the finance department and commercial bank would pay out subsidies and other costs by directly depositing them into the account of the enterprise concerned, based on the actual amount of agricultural products procured and in stock and the amount transferred and sold. This way fund diversion would not occur. Another advantage is that it would mobilize the initiative of grain and supply enterprises. Reportedly this approach was used in part when the Agricultural Bank issued procurement loans as the agent of the People's Bank. In 1984, the Agricultural Bank was given its own field of operations and this practice was discontinued.

As for the problem of accounts settlement departments misappropriating funds earmarked for the procurement of agricultural products, that must be treated as an important part of housecleaning in the banking industry.

A Solution That Gets To the Root of the Problem

The summer harvest is barely over and the fall harvest is just around the corner. According to reports from every source, a bumper harvest is now a foregone conclusion. Procurement departments are preparing the storage facilities and means of transportation. The Agricultural Bank is raising funds. The peasants are trying to figure out how much cash they can get even as they sharpen their sickles. The procurement of agricultural products in summer and fall each year has a bearing on agricultural production, rural economic development, the national market, public confidence, and the long-term peace and stability of the nation. We should come up with a long-term policy that gets to the root of the problem even as we apply bandaid measures. "We cannot resort to emergency measures each year."

Dispel the dark cloud of "IOU's" hanging over our heads. Do not let it continue to bedevil our economic life.

Anhui Rice Storage

40060001e Hefei ANHUI RIBAO in Chinese 1 Sep 89 p 1

[Summary] As of 25 August, Anhui Province had put 561 million kilograms of rice in storage, an increase of 236 million kilograms over the same period in 1988.

Provinces Issue IOU's to Hog Farmers

40060001d Beijing NONGMIN RIBAO in Chinese 4 Sep 89 p 2

[Summary] According to June statistics, Sichuan Province owes hog farmers more than 70 million yuan; Shaanxi Province owes hog farmers more than 20 million yuan; and Shandong Province owes hog farmers about 90 million yuan.

Sichuan Wheat, Rapeseed Procurement

40060001b Chengdu SICHUAN RIBAO in Chinese
3 Sep 89 p 1

[Summary] As of 25 August, Sichuan Province had put 1.445 billion kilograms of wheat and 467 million kilograms of rapeseeds in storage, fulfilling 103 percent and 86 percent of the task respectively.

Sichuan Peasant Income

40060001a Chengdu SICHUAN RIBAO in Chinese
31 Aug 89 p 2

[Summary] In the first half of 1989, peasant per capita cash income in Sichuan Province was 236.62 yuan, an increase of 34.90 yuan, or 17.3 percent, over the same period in 1988.

Yunnan Livestock Production

40060740f Kunming YUNNAN RIBAO in Chinese
22 Aug 89 p 1

[Summary] By the end of June, Yunnan Province had removed 4,303,700 porkers from inventory, an increase of 312,800 head, or 7.8 percent, over the same period in 1988; gross output of pork, beef and lamb was 348,900 tons, an increase of 32,500 tons, or 10.2 percent, over the same period in 1988; and 9,964 tons of pork were transferred in from other provinces, a 51 percent decline from the same period in 1988.

Veteran Journalist Discusses Role of Media

QW 1309072089 Shanghai City Service in Mandarin
2200 GMT 19 Aug 89

[Report on article by Wu Lengxi, member of the Standing Committee of the Chinese People's Political Consultative Conference (CPPCC) National Committee and veteran journalist: "The Role of the Media Calls for Deep Thought"; carried by RENMIN ZHENGXIE BAO (CPPCC NEWS) and reprinted in MINZHU YU FAZHI (DEMOCRACY AND THE LEGAL SYSTEM) No. 8, 1989]

[Text] Wu Lengxi's article says that during the period of the turmoil, many press units lost their bearings for a while. This resulted from the rampant ideological trend of bourgeois liberalization on a long-term basis. Since we built our revolutionary bases, our party newspapers have always played a dominant role, served the party as its eyes and ears and mouthpiece; upheld party spirit and principles; publicized the party's lines, principles, and policy correctly, in an all-round way, fully and in good time; and have never been permitted to act on their own or assert their independence from the party. However, some comrades, erroneously summing up lessons drawn from the Cultural Revolution and lessons drawn from the wrong "leftist" deviation before the Cultural Revolution, pointed out: Affinity with the people is more important than party spirit. They raved that you will commit errors if you uphold the party spirit and that you will not commit errors if you uphold affinity with the people. They blew their own trumpets, lauded affinity with the people to the skies, praised themselves as much wiser than the party, and acted on their own. Many people heard this extremely erroneous point of view and an evil wind of refusal to be the party's mouthpiece began to blow. This is the principal theoretical basis for the rampant ideological trends of liberalization in the press, as well as the ideological root cause why certain press units committed errors in orientation during the turmoil and counterrevolutionary rebellion.

Wu Lengxi says there are two characteristics in liberalization pushed by the press. The first is pluralization. They trumpeted that the press and radio and TV stations play various roles, function in various ways, and carry out various tasks such as publicizing policies, expressing public sentiments, acting as media supervision, imparting knowledge, exchanging information, offering entertainment, introducing commodities, and so on and so forth. You cannot argue that these various tasks and functions are nonsensical, however, the question is that when they did this, they played down or simply forgot the principal task and function of the media. When you say that the media should be guidance oriented, they say that the media should be mass oriented, knowledge oriented, and entertaining. When you say that it is necessary to run a party newspaper well, they say it is necessary for organizations, nongovernmental units, and individuals to run newspapers. When you say it is necessary to see eye to eye with the party Central Committee, they say it is necessary to have a variety of voices. In short, they drown the

principal nature, tasks, and functions of newspapers or magazines in an ocean of various requirements and call it by the fine sounding name of pluralization. Actually, they cancel the principal task of the press. They oppose the newspaper as the party's mouthpiece and even reject the wording that a newspaper is the party's, government's, and people's mouthpiece.

The second characteristic is neutralization, which is a false trick. They spare no efforts to propagate a theory by defining journalism as being neither acidic nor alkaline, but neutral. Specifically, they call all newspapers, news agencies, and radio and television stations the media. Of course, you cannot say they are not the media, since the media are accepted by different classes and various interested institutions. But what questions can two words solve? This is tantamount to saying newspapers are newspapers. It only explains that this neutral definition is set in order to sidestep the class nature or the nature of political inclination of the media. This is because the crux of the question lies in what is propagated, for whom and by whom things are propagated, and how they are propagated. Here, inevitably, the answer differs because of different inclinations and different classes, strata, and social institutions. Thus, trumpeters of the media falsely covered up their purposes and deceive the masses by resorting to the so-called true, objective, and impartial report.

Eroded by the ideological trend of bourgeois liberalization on a long-term basis, many newspapers, magazines, and radio and television stations have, for several years, taken a negative attitude toward propaganda about the four cardinal principles and have carried and broadcast many things advocating liberalization. Here I will cite two glaring instances. The so-called Shekou incident shows how a fine ideological and political worker was discredited. The report carried by RENMIN RIBAO was impartial on the surface. It opposed so-called inculcation and preaching, but actually negated ideological and political work and opposed publicizing socialism and patriotism. This incident shocked the whole country and particularly dissatisfied the vast number of ideological and political workers. However, the incident was later played down and settled, ending up with nothing definite.

The other instance is the telefilm *River Elegy*. This six-part telefilm maliciously attacks the Chinese nation and culture and fervently advocates all-around Westernization. Is this not real inculcation? Is this not downright preaching? Yet it has been lauded to the skies as a creative television political commentary or commentary telefilm, broadcast again and again. It has exerted a pernicious influence across the country.

In his article, Wu Lengxi points out that it is necessary to clean up our journalistic ranks. The quality of our journalistic ranks must be greatly improved. First of all, it is necessary to improve their political quality. It is particularly important that the core of their leadership should be firm Marxists. Journalistic education in all institutes of higher learning must be reformed in a great way. It is necessary to keep to the theory of Chinese journalism.

guided by Marxism-Leninism-Mao Zedong Thought, emphasize inheriting and developing revolutionary journalists' glorious traditions, and boycott the reactionary journalistic ideology of the Western bourgeoisie.

To carry out reform in journalism, we must first develop three major styles to make sure it becomes the ears and eyes and the mouthpiece of the party, government, and the people. To enjoy freedom in journalism, we must not

only guarantee exercising our rights, but also guarantee fulfilling our duty. In short, our journalism must help us uphold the four cardinal principles and carry out reform and opening to the outside world. The media impart knowledge and offer entertainment in order to raise the people's educational level and the level of their morality and health, not to spread the rotten thoughts and lifestyle of the bourgeoisie.

EAST REGION

Jiangxi Conference Backs Anticorruption Circular

OW 2509013589 Nanchang JIANGXI RIBAO in
Chinese 29 Aug 89 pp 1, 3

[By reporter Yang Min 2799 2404]

[Excerpts] The provincial party committee and provincial government called a telephone conference on the evening of 28 August to arrange for further dissemination and implementation of the Supreme People's Court's and Supreme People's Procuratorate's "Circular Calling on Offenders of Corruption, Bribery, and Profiteering To Surrender and Confess Their Crimes to the Authorities Within the Prescribed Time Limit."

Comrade Wang Zhaorong presided. Mao Zhiyong, Wu Guanzheng, and Liu Fangren took part.

Wang Shuheng, chief procurator of the provincial people's procuratorate, first briefed the conference on the efforts of our province in the previous period to implement the "circular" and what he thought should be done to further implement it. [passage omitted]

Wang Shuheng said: Although we achieved something in the previous period, these are only initial results. The work lying ahead is very arduous.

Regarding the current efforts to implement the "circular," Wang Shuheng said: "Our party and government have always stood by the principle of being honest in performing government duties, opposing corruption, and cracking down on serious economic crimes. However, during the period Comrade Zhao Ziyang was in charge of the work of the party Central Committee, he said on many occasions that corruption is unavoidable in the initial period of the development of the commodity economy. As a result, people have become confused in their minds and the party has become indecisive and ineffective in carrying out the actual work of eliminating corruption and promoting clean government. This has given a pretext for a small number of people to attack our party and government during the turmoil and the rebellion. We must draw a profound lesson from this experience and keep it firmly in mind." [passage omitted]

Jiang Zhuping, deputy secretary of the provincial party committee and provincial vice governor, spoke. He said: "The viewpoints just expressed by Comrade Wang Shuheng in his briefings have been studied and approved by the provincial party committee. All localities are expected to seriously implement them. The provincial party committee and provincial government attach great importance to this struggle. The purpose of this telephone conference is to further arouse the people, strengthen leadership, organize well, and concentrate forces to deepen this struggle."

Comrade Jiang Zhuping emphasized that: 1) We must pay attention to propaganda to arouse the people and

build up mammoth momentum for this struggle. The purpose of the "circular" issued by the two supremes [Supreme People's Court and Supreme People's Procuratorate] is to implement the guidelines of the 4th Plenary Session of the 13th CPC Central Committee. It is an important measure in accomplishing the seven tasks of great concern to the people in the near future, as decided by the party Central Committee and the State Council. It is an effective legal weapon to deal telling blows to corruption, bribery, profiteering, and other serious economic crimes. We must give wide publicity to the guidelines of the "circular," as well as the methods, policy, and laws used for waging this struggle, and go all out to arouse the people to report on offenders and courageously wage a resolute struggle against crime. 2) We must pay close attention to fulfilling policy promises to give play to the power of the "circular." "Combining punishment with leniency" is the basic policy adopted by our party and state in dealing with criminals. Those who surrender and confess their crimes within the specified time should be leniently dealt with. Those who stubbornly refuse to repent and even continue to commit crimes during the clemency period, whoever they may be, should all be sternly handled without any softness. It is necessary to protect the legal rights of those who report crimes and award informers who have performed meritorious service. Anyone attempting to intercede for, or shield, criminals and retaliate against informers must be sternly punished in accordance with law. 3) We must strengthen leadership and make sure the "circular" is implemented. Party committees and governments at all levels must have a firm attitude and never waver in leading the struggle to success. [passage omitted] Leaders of all state organs, mass organizations, institutions, enterprises, and collective economic organizations should act responsibly and in a timely manner to turn over all corruption, bribery, or profiteering cases found in their own departments or units to the procuratorial and other concerned law enforcement departments, and actively assist the former in investigating the cases. No department or unit is permitted to cover up any case or impose fines in place of punishment. Otherwise, their leaders will be held responsible for any serious consequences. [names of various localities, units represented at the conference omitted]

Inspection Organs Work To Promote Clean Government in Jiangxi

OW 2809022689 Nanchang Jiangxi Provincial Service in
Mandarin 1100 GMT 20 Sep 89

[Text] Discipline inspection organs at all levels in Jiangxi have actively assisted party committees in establishing a clean government system. They have seriously implemented and achieved initial results in fulfilling the five tasks proposed by the provincial party committee on establishing a clean government system. Since the provincial party committee issued the two circulars on banning party and government cadres from building private houses in cities and towns and on promptly recovering public funds owed or embezzled by cadres,

staffers, and workers, discipline organs at all levels across the province have acted immediately and dispatched a large number of discipline inspection cadres, who have cooperated with departments concerned and carried out investigations. The investigations have revealed that, since February 1986, more than 12,000 people have built houses in cities and towns. Among them are 7 cadres at and above the district level and 531 cadres at the county level. Also, more than 144,000 cadres, staffers, and workers have been found to have owed or embezzled a total of over 90 million yuan of public funds. Now, over 85 percent of these funds have been recovered.

To ensure the implementation of the provincial government-issued "Several Stipulations on Implementing the 'Two Opens and One Supervision' System Concerning the Circulation of Means of Agricultural Production," the provincial discipline inspection commission has promptly cooperated with the provincial supervision department in jointly formulating a provisional regulation to govern disciplinary actions to be taken against personnel who violate the "two opens and one supervision" system concerning the supply of means of agricultural production. The provincial discipline inspection commission has also assisted departments concerned in drafting a provisional regulation on resolutely correcting the unhealthy practice of lavish wining and dining, as well as several stipulations dealing with party and government cadres who violate discipline by building private houses in cities and towns. These regulations are written in no uncertain terms. Implementation over the past 3 months shows that various localities and units across the province have basically observed these regulations, and that a healthy practice of no banquets for either hosts or guests has been initially established across the province. The provincial means of agricultural production company has found no irregularities in any urea sales jointly approved by leaders of the province, departments concerned, and the company itself, nor has it found any unit to hoard or hike the prices of urea sold to them by the company. Even when irregularities were found with some individual localities, the problems were promptly dealt with.

In assisting the party committees in promoting a clean government system, discipline inspection organs at all levels have also summed up and popularized advanced experience and analyzed negative examples, thereby beefing up the resolve and confidence of party members and the masses in establishing a clean government system and playing a positive role in enhancing the party spirit across the province.

Anhui Implements Circular on Crime Informing, Confession

OW 2009101489 Hefei, Anhui Provincial Service in Mandarin 1100 GMT 26 Aug 89

[Interview with Liu Sheng, deputy chief procurator, Anhui Provincial Higher People's Procuratorate, and Han Yunping, vice president, Anhui Provincial Higher

People's Court, by reporters from various media on 25 Aug. place not given: From the "Provincial Hookup" program]

[Excerpt] Liu Sheng, deputy chief procurator of the Anhui Provincial Higher People's Procuratorate, and Han Yunping, vice president of the Anhui Provincial Higher People's Court, were interviewed yesterday by reporters from ANHUI RIBAO, the Anhui People's Broadcasting Station, Anhui Television Station, and other news media units.

[Question] What has been the response in our province to the promulgation of the circular issued by the Supreme People's Court and the Supreme People's Procuratorate asking criminal elements who have committed crimes of embezzlement, bribe-taking, and speculation to surrender to the authorities and confess their crimes?

[Liu Sheng] Since the promulgation of the circular, the provincial party committee and local party committees at various levels have made special efforts to publicize and implement it. In addition, they have given specific instructions to public security, procuratorial, court, and propaganda departments regarding its implementation and publicity. Reports from various localities indicate that more people have come forward to inform the authorities of crimes committed by others and more criminal elements have surrendered voluntarily to the authorities to confess their crimes. According to reports from procuratorial departments in Hefei, Huaihe, Huainan, Caohu, Chuxian, Xuancheng, and Puyang Prefectures, as of 25 August, 35 criminal elements in various parts of the province had voluntarily surrendered to the procuratorial organs to confess their crimes, bringing with them their spoils. Among those who confessed were a cadre at the prefectural and departmental level and five cadres at the county and bureau levels. In six cases, the amount of money involved exceeded 10,000 yuan. More than 242,400 yuan in spoils was handed over to the authorities [passage omitted].

[Question] What measures have Anhui's procuratorial organs taken to implement the circular since its promulgation?

[Liu Sheng] Since the promulgation of the circular, procuratorial organs in various parts of the province have adopted specific measures to implement it and have done a good job of receiving criminal elements who came to surrender themselves and people who came to inform of the crimes committed by others. Relevant personnel worked around the clock to ensure that there were always personnel on duty to receive them regardless of when they come. Generally speaking, procuratorial organs would not detain or arrest people who came forward to surrender themselves and confess their crimes. In handling the cases, the procuratorial organs have strictly observed the legal principle of basing ourselves on facts and using the law as the criterion and have followed the legal procedures. To ensure the quality of case handling, the procuratorial organs have acted in

strict accordance with the circular. Procuratorial offices at various levels have shown leniency toward criminal elements who came forward to confess their crimes, either declaring that they would not be prosecuted or asking the court to hold a trial in which lenient terms of punishment were announced. This has given expression to the country's law and the party's policy. [passage omitted]

[Question] What has the provincial people's court done to implement the circular issued by the Supreme People's Court and the Supreme People's Procuratorate?

[Han Yunping] The policy outlined in the circular is a major one put forward in accordance with Comrade Deng Xiaoping's instruction on stepping up the punishment of the corrupt and with the decision made at a meeting of the Political Bureau of the CPC Central Committee. This special policy adopted by the central authorities calls for more lenient treatment of criminal elements who surrender themselves to the authorities within the set time limit. We must resolutely and effectively implement this special policy. We must try to make full use of the immense power of this special policy. We have asked courts at all levels to take into overall consideration the amount of money involved and the circumstances of the crimes committed, as well as the way they come forward to confess. We have asked the courts to resolutely fulfill what was promised in the circular by treating them leniently. Those who surrender and actively return their spoils or those who perform commendable deeds may receive lenient treatment, regardless of the amount of money involved. In these cases, those who deserve the death sentence may be exempt from the death sentence. Those who deserve heavy punishment may be given light or mitigated punishment or may be exempt from criminal punishment. Those who deserve light punishment may be exempt from criminal punishment. On the other hand, those who commit serious crimes but refuse to surrender and confess within the set time limit shall be severely punished according to law. Those who deserve the death sentence shall be sentenced accordingly without leniency. Those who intercede for and shield law-breaking and criminal elements, retaliate against law enforcement personnel and informers, and fabricate facts to make false accusations against and frame other people shall be severely punished according to the law, without mercy. In trying all types of economic criminal cases, we shall base ourselves on facts, use the law as the criterion, and strictly observe the legal procedures. We must ensure that facts are clear and the evidence is iron-clad.

Shandong Official Emphasizes Party Building

SA 2 0004 789 Jinan Shandong Provincial Service in Mandarin 2 000 GMT 25 Sep 89

[Text] In his speech at the provincial organizational work conference that was held on the afternoon of 25

September, Tan Fude, member of the Standing Committee of the provincial party committee and director of the Organization Department, emphasized that we should adopt effective measures for ideologically, organizationally, and practically strengthening party building, and should strive to build party organizations at various levels into a strong nucleus to guide the socialist modernization.

Tan Fude pointed out in his speech that building ranks of truly qualified party members according to the requirements for the vanguard of the working class is a matter of vital importance to ensure implementation of the party's basic line and realization of the party's long-range goals. Thus, in line with the actual conditions of the ranks of party members, we should adopt measures for fundamentally upgrading the quality of party members.

He said that we should realistically strengthen the education and management of party members and upgrade their political and ideological awareness. Due to our failure to consistently provide education on upholding the four cardinal principles or to resolutely wage the struggle against bourgeois liberalization, some party members have confused ideas. We should help party members eliminate the influence of bourgeois liberalization and their confused ideas. It is necessary to bring the party's leading role into full play and to perfect and develop the system of multiparty cooperation under the leadership of the CPC. The West's system of multiparty coexistence cannot be carried out in China. The concepts of negating or doubting the leadership of the party must be opposed. It is necessary to affirm that socialism is dominated by public ownership and allows the coexistence of various sectors of the economy, and to oppose economic privatization as a means of reform. We should fully guarantee the people's democratic rights and interests, exercise dictatorship over hostile elements, develop socialist democracy in a well-guided and step-by-step manner, and perfect the people's congress system and the political consultation system. The capitalist countries' parliamentary democracy must not be advocated in China. Closely in line with the practice of building socialism with Chinese characteristics, we should develop and uphold Marxism-Leninism-Mao Zedong Thought, and oppose wrong ideas, such as the antiquated theory of negating Marxism and the thought of belittling Marxism. Each and every communist party member should have a firm belief in, and adopt a definite attitude toward, the Marxist basic stand and principle, and strive to put into practice; otherwise, he is not qualified to be a communist party member. We should organize party members to review oaths, the party constitution, and the book on communist party members' accomplishment written by Comrade Liu Shaopu, consciously strengthen the awareness of party spirit, firmly foster the standards for being a proletarian vanguard, and eliminate whatever is nonproletarian.

He said that, in line with the requirements for strictly administering the party, we should continuously work on democratically appraising party members and punishing unqualified party members.

Tan Fude said that we should persist in the criterion for party members, and work on recruiting party members on the premise of ensuring their quality. We should conscientiously implement the principle of persisting in the criterion for party members, ensuring the quality of party members, improving the structure of party members, and prudently recruiting party members; pay attention to cultivating the workers, peasants, and intellectuals on the forefront of production, and to recruiting party members from among the excellent, and pay particular attention to recruiting party members from the workers on the production fronts, and from the units where the strength of the party is weak.

Tan Fude stressed that, as the foundation of the party, the grassroots party organizations play an extremely important role in exercising the party's leadership over national and social activities. Attending to the construction of the grassroots party organizations is a basic content of party building, as well as an urgent task at present.

He urged party organizations of the enterprises to bring their role as a political core into full play and realistically strengthen their leadership over the ideological and political work and the spiritual civilization. The grassroots party organizations in the rural areas should guide the masses to develop the socialist commodity economy and to take the path of seeking common wealth, regard conducting ideological and political work among the peasants and promoting spiritual civilizations as their key tasks, and strive to upgrade their cohesive power, attractive power, and combat effectiveness. Institutions of higher learning are key fronts to cultivate successors to socialist and communist undertakings. Thus, their party organizations should bring their role as a political core into full play. According to the requirements of the central authorities and the provincial party committee, we should strive to upgrade party members' quality and party organizations' combat effectiveness. The situation, in which the party organizations of some organs are in a state of weakness and laxation and lack vitality, should be changed. All city and district party committees should firmly attend to the building of neighborhood party organizations, and bring into full play their role as a fighting force in the urban grassroots areas.

Zhang Quanping, member of the Standing Committee of the provincial party committee and secretary of the provincial Discipline Inspection Commission, presided over the conference.

CENTRAL-SOUTH REGION

Guangdong Governor Attributes Progress to Reform, Opening Up

HK1709045289 Beijing ZHONGGUO XINWEN SHE
in Chinese 1448 GMT 16 Sep 89

[Report by reporter Zhang Xu 1728 6079: "Guangdong Governor Ye Xuanping Says There is no Reason or Basis for Changing the Policy of Reform and Opening Up"—ZHONGGUO XINWEN SHE headline]

[Text] Zhongshan 16 Sep (ZHONGGUO XINWEN SHE)—Guangdong Governor Ye Xuanping said here today that everything in Guangdong is normal at present, and its investment climate is improving. We invite those Overseas Chinese, Hong Kong, and Macao compatriots who have misgivings about the situation to come back and see for themselves. Guangdong may not be in the "piping times of peace," but there is no question about its security. The governor made the above statement to some 800 Overseas Chinese, Hong Kong, and Macao compatriots at the "Rally to Commend Overseas Chinese, Hong Kong, and Macao Compatriots Supportive of Construction of Zhongshan" that convened here today. At the rally today, 10 Overseas Chinese, Hong Kong, and Macao compatriots, including Mr Henry Fok, who have donated HK\$5 million (Hong Kong dollars) and up or made investments of HK\$10 million and up in Zhongshan were conferred with the title of Zhongshan's "honorary citizen." In his speech delivered today, Ye Xuanping said, we "review our work harder" on every festive occasion. Today, the three issues under our review are: Should we forget about our loyalty to the people? Should we be as good as our word in exercising contracts in cooperation with our friends? Should we change our principles and policies?

Ye Xuanping asked how we should account for Guangdong's 10 years of accomplishments. How should we account for the fastest rate in the province's 10-year development since the PRC was founded 40 years ago? The answer is none other than the CPC leadership, and the principle and policies of reform and opening up to the outside world. Guangdong's construction would have been impossible without the support of Overseas Chinese, Hong Kong, and Macao compatriots. This is Guangdong's characteristic as well as its advantage. Donations from our fellow countrymen have reached a record level over the past 10 years, because the line of reform and opening has broken through the shackles on the productive force and people's minds. Will the existing principles and policies change? We should say that they will remain basically unchanged, with only some minor changes. The accomplishments in recent years have explained that there is no reason or basis for changing the policy of reform and opening up. However, changes are inevitable with regard to certain things beyond internal bearing capacities, such as the excessive scope of capital construction and an inflation rate that is too high, but such changes will not affect our major principle and external policies.

Zhongshan Mayor Tang Bingquan [3282 3521 2938] has issued certificates and 24 karat gold keys to the 10 "honorary citizens," the Zhongshan City government has also built a "Yingdong Pavilion" in the neighborhood of the Warm Spring Hotel, an investment of Mr Henry Fok.

NORTHEAST REGION

Harbin Ideological, Political Conference Opens

SK2009100289 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 15 Sep 89

[Text] The Heilongjiang conference on party building and ideological and political work opened in Daqing today. This morning, the conference relayed the guidelines of the national meeting of organizational department directors, and studied some expositions made by Deng Xiaoping and other central leading comrades on party building and ideological and political work under the new situation. In the afternoon, the conference exchanged experiences obtained by Daqing and other advanced units in strengthening party building and ideological and political work.

This conference is devoted to making an analysis and appraisal of the current situation in Heilongjiang's party building and ideological and political work, as well as the major problems in this regard, and to studying ways to tackle these problems. This conference is also devoted to discussing and revising the relevant decisions, proposals, circulars, and programs of the Heilongjiang Provincial CPC Committee, including the decision on studying Daqing's experiences in strengthening ideological and political work, the proposal for conscientiously studying and implementing the circular of the party Central Committee on strengthening and propagating ideological work, the circular on strengthening and improving the educational work among party members, the program on conducting party membership registration among parts of units, and the program on checking up on the work of leading cadres at or above the county and section levels throughout the province.

Zhou Wenhua, deputy secretary of the provincial party committee, presided over the conference. Present at today's meeting were Wang Haiyan, Wang Zhao, Wang Luming, Qi Guiyuan, Xie Yong, Zhang Xiangling, and Cheng Liemin. Also present were secretaries of various prefectural, city, and county party committees; directors of organizational and propaganda departments of various prefectural, city, and county party committees; responsible comrades of various departments and commissions of the provincial party committee; responsible comrades of relevant departments directly under the provincial authorities; and secretaries of party committees of some large and medium-sized enterprises, as well as universities, totaling 360 persons.

This meeting will last 5 days.

Heilongjiang Symposium Affirms Party Guidelines

SK1809051889 Harbin Heilongjiang Provincial Service in Mandarin 0900 GMT 13 Sep 89

[Text] The second symposium of leading cadres of provincial-level departments and bureaus, on studying the guidelines of the 4th Plenary Session, was held at the Harbin Beifang Building on the morning of 13 September. The comrades participating in the symposium especially discussed the issue that the four cardinal principles, which are the foundation for building the country. Zhou Wenhua, deputy secretary of the provincial party committee, made a speech in summation at the symposium.

At the symposium, Liang Weiling, chairman of the provincial women's federation; Tan Fangzhi, deputy director of the united front work department of the provincial party committee; and (Pan Shi), director of the provincial cultural department, expounded the ideology that the four cardinal principles are the foundation for building the country, by affirming the necessity of persisting in the leadership of the communist party and the socialist road, strengthening democracy and the legal system, safeguarding social stability, opposing bourgeois liberalization, and persisting in a correct literary and artistic orientation. Zhou Wenhua, deputy secretary of the provincial party committee, made a speech in summary entitled "Deeply Study and Understand Comrade Deng Xiaoping's Consistent Ideology and Persistently Adhere to the Four Cardinal Principles."

He said: "Some people began to shake the basic Marxist theory due to the overflow of the thinking of bourgeois liberalization for a period of time. Some wrong ideas that go against Marxism spread unchecked. We have drawn deep lessons in this area over the past years. Specifically speaking, we can divide these lessons into three categories: First, we failed to occupy the media front systematically with basic socialist and Marxist principles. Second, we have no systematic and authoritative theories to expound some questions related to major political principles. Third, we have not made full theoretical preparation for reforms and opening the country to the outside world, and the theoretical study in the course of reforms and opening to the outside world has constantly failed to keep abreast of the practices of reforms and opening the country to the outside world. As a result, the work of reform and opening to the outside world has been carried out without accurate guidance. Viewing the lessons mentioned above, we know that we have to use the basic Marxist stand, viewpoint, and method to accurately handle the relationship as follows: First, we should accurately handle the relationship between the four cardinal principles and the work of reforms and opening to the outside world, and consciously persist in the dialectic unity between two basic points. Second, we should accurately handle the relationship between the

leadership of the party and the four modernizations, and vigorously strengthen ideological and political work. Third, we should accurately handle the relationship between material civilization and spiritual civilization, and continuously attend to the two civilizations. Fourth, we should accurately handle the relationship between opposition to bourgeois liberalization and the work of strictly grasping lines of demarcation, according to policies, and carry the struggle against bourgeois liberalization through to the end."

Jilin Conference Discusses Public Security Work, Future Tasks

SK2209040889 Changchun Jilin Provincial Service in Mandarin 1030 GMT 21 Sep 89

[Excerpts] The 2-day provincial conference on the comprehensive tackling of public security problems ended in Changchun today. At the conference, the participants pointed out that comprehensively improving public security is the common task of the whole party and all of society. Du Qinglin, deputy secretary of the provincial party committee and chief of the political and legal work leading group of the provincial party committee, presided over the conference and gave a concluding speech at the conference. Gao Wen, vice provincial governor and deputy chief of the leading group of the political and legal work of the provincial party committee, gave a speech at the conference. Comrades in charge of political and legal work of various city, prefectural, and autonomous prefectural party committees and governments, and comrades of the political and legal offices and offices in charge of comprehensively tackling public security problems, secretaries of judicial and public security organs, and comrades of relevant provincial departments also attended the conference.

During the conference, 12 units, including the Changchun City party committee and government, and the Jilin City party committee and government, introduced their experiences in comprehensively improving social security.

The conference summarized the tremendous achievements of all localities in early April in carrying out a struggle against criminal offenses, checking repulsive phenomena in society, and rectifying social order in line with the unified plan of the provincial party committee. [passage omitted]

The conference made arrangements for the future work of comprehensively implementing the rectification measures and actively strengthening the whole society's crime-prevention work. [passage omitted]

Comrade Du Qinglin pointed out in his summarizing speech that, at present, in carrying out political and legal work, we should exert efforts to do a good job in the investigation and clean-up work and thoroughly carry out activities to attack economic crimes. The public security departments at all levels should strengthen

administrative honesty among its public security contingents in line with the guidelines of the stipulations of the central authorities and the provincial party committee. It is necessary to do a good job in security work during the 40th anniversary of the National Day, assign tasks to all personnel and set demands on them, and strengthen security work during the National Day with a high sense of revolutionary responsibility and full vigilance.

Jilin Reports Educational Achievements

SK1309053589 Changchun Jilin Provincial Service in Mandarin 2100 GMT 10 Sep 89

[Summary] Over the past 40 years, Jilin Province has scored marked achievements in educational undertakings. In 1988, the province had more than 380,000 children attending kindergarten, which is a more than 15-fold increase over 1949. At present, the province has more than 41,000 primary schools, which have accommodated almost 30 million pupils. The number of junior middle school students is more than 1.1 million, a more than 30-fold increase over 1949, which ranks the province fifth in the country in this regard; and that of senior middle schools is more than 783,000, a 41.1-fold increase over 1949. The province has, to date, 41 higher educational institutions. In 1988, the number of college students reached more than 73,000, an 18.9-fold increase over 1949, which ranks the province sixth in the country in this regard. In 1988, the province had more than 462,000 teachers, staff members, and workers among various schools, and more than 3,400 professors and associate professors in higher education institutions. Over the past 40 years the total number of graduates from the province's higher education institutions has reached more than 200,000 and, from the province's secondary specialized schools, more than 410,000. Over the past 40 years, the total number of graduates from the province's senior or junior middle schools has reached more than 9.6 million.

Liaoning Conference Deals With Cultural Markets

SK1209120789 Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 8 Sep 89

[Text] The provincial conference on rectifying and cleaning up cultural markets was held in Shenyang from 5 to 8 September.

The main subjects for discussion at the conference were to thoroughly eliminate spiritual poison, remove cultural refuse, purify cultural markets, further make cultural undertakings flourish, and greet the 40th anniversary of the National Day with colorful and successful cultural activities.

At the conference, responsible comrades of the cultural fronts from various localities of the province exchanged notes on their experiences and specific achievements in cleaning up and rectifying the markets of books, press, periodicals, and audio and video products; and studied

and explored measures and ways to further implement the guidelines of the central authorities and to resolutely and thoroughly investigate and eliminate illegally published books, periodicals, and audio and video products with reactionary, pornographic, violent, feudal, and superstitious content.

Wang Chonglu, Standing Committee member of the provincial party committee and director of the propaganda department of the provincial party committee, summed up the work of rectifying and cleaning up cultural markets done over the last month or so.

He said: "The province as a whole has dispatched 42,000 people to take charge of the investigation work. A total of 3,575 reactionary and pornographic books were taken, 440,000 unlawful books and periodicals were confiscated, 17,000 pornographic audio and video tapes were taken, (?407) unlawful and unlicensed cultural and media administrative units were disbanded, 199 cultural and media administrative units were closed down for

rectification, and 118 persons were arrested and dealt with. Viewing the situation of the whole province, the work in the preceding stage was done in a down-to-earth manner, the development of the work was smooth, and achievements were noticeable."

After pointing out the phenomena in which some cities were slow to act and failed to effectively conduct investigations, Wang Chonglu stressed that, before the National Day, the province should generally clean up and rectify the markets of books, periodicals, and audio and video products according to the instructions of the central authorities. The National Day is only some 20 days away. Time is pressing and the task heavy. So, the cultural front should make persistent efforts to thoroughly attend to the work and to greet the 40th anniversary of the founding of the PRC with a new, healthy, and flourishing look.

Wang Wenyuan, vice governor of the province, attended the conference.

END OF

FICHE

DATE FILMED

20 Oct. 1989